

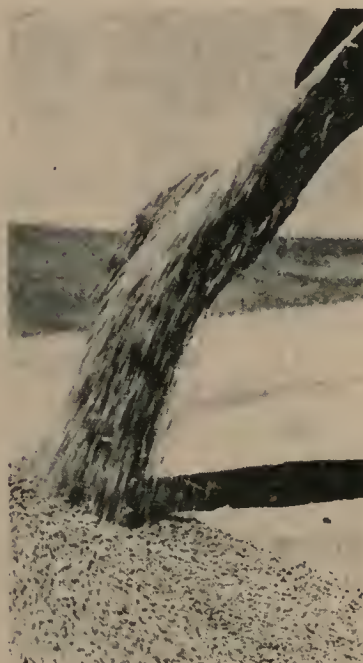
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Proceedings

5th

Annual K E E P Public Affairs Forum

HOW PRICES ARE DETERMINED FOR MONTANA WHEAT



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Heritage Inn
Great Falls, Mt.

Thursday
September 29
1977

PRESENTED BY:

KELLOGG EXTENSION EDUCATION PROJECT
COOPERATIVE EXTENSION SERVICE MONTANA
STATE UNIVERSITY

&

DEPARTMENT OF AG ECONOMICS & ECONOMICS
MONTANA STATE UNIVERSITY

GOVERNOR'S AD HOC COMMITTEE FOR AGRI-
CULTURE
MONTANA RURAL AREAS DEVELOPMENT
COMMITTEE
MONTANA DEPARTMENT OF AGRICULTURE



Cooperative Extension Service
Montana State University, Bozeman



HOW PRICES ARE DETERMINED FOR MONTANA WHEAT
Thursday, September 29, 1977
Heritage Inn - Great Falls, Montana

- Morning Program Chairman: Gene Quenemoen
- 8:30 Registration--Coffee & Doughnuts Canadian Room
- 9:00 Welcome. William Tietz
- 9:05 THE WORLD MARKET FOR WHEAT Alex McCalla
- 9:50 THE ROLE OF MULTI-NATIONAL GRAIN FIRMS Clarence Palmby
- 10:35 Break.
- 10:45 Reactor Panel. Bob Purdy, Chairman; Gary Aklestad, George Skarda,
Joyce Robinson, Mike Bergland, Yvonne Snider and Frank Kraft
- 11:15 Audience Questions
- 12:00 Lunch. Remarks by Gov. Thomas Judge
- Afternoon Program Chairman: Richard McConnen
- 1:00 THE PRICE OF WHEAT--CASH & FUTURES MARKET. Al Donahoo
- 1:30 Reactor Panel. Knud Groesen, Chairman; Gordon Matheson, Gene Thayer,
Bill Brinkel and Jack Gunderson
- 2:00 A MECHANISM FOR PROTECTING FARMERS Mark Powers
- 2:30 Reactor Panel. Dean Hellinger, Chairman; Frank Daniels, Gene Carroll,
Gail Cramer and Kent Norby
- 3:00 Break.
- 3:15 Audience Questions
- 4:00 Adjourn.

THIS IS A COPY OF THE FORUM PROGRAM

The programs of the Montana Cooperative Extension Service are available to all people regardless of race, creed, color, sex or national origin.

Issued in furtherance of cooperative extension work in agriculture and home economics; acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Carl J. Hoffman, Director, Cooperative Extension Service, Montana State University, Bozeman, Montana 59717.

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INTRODUCTION

by

Gene Quenemoen, Public Affairs Forum Coordinator
Cooperative Extension Service, MSU

Wheat is an important part of the earth's food supply. World production this year exceeded 400 million tons. Montana produced some 3.5 million tons, worth over \$250 million.

Montana's wheat provides a substantial portion of the state's total income. How wheat is marketed, transported and traded affects prices--and Montana's economy. Thus it is of vital importance to every resident of the state.

In a 1948 lecture at Kenyon College the late Robert Hutchins stated:

The civilization of the dialogue is the only civilization worth having and the only civilization in which the world can unite. It is, therefore, the only civilization we can hope for, because the world must unite or be blown to bits. The civilization of the dialogue requires communication. It requires a common language and a common stock of ideas. It assumes that every person has reason and every person can use it. It preserves to every person his independent judgement and, since it does so, it deprives any person or group of persons of the privilege of forcing their judgment upon any other. . . . The civilization of the dialogue is the negation of force.

This fifth Public Affairs Forum is devoted to dialogue on the complex and controversial issue of pricing wheat.

The Kellogg-Extension Education Project (KEEP) was launched with a W.K. Kellogg Foundation grant in 1971. As part of its program, KEEP sponsors a Public Affairs Forum each year to examine a sensitive public policy issue.

This year a statewide steering committee, selected to represent diverse interests, has helped to bring together outstanding authorities to discuss the important issue of wheat pricing.

The survival of a society depends on the continual study, evaluation and criticism of its institutions and culture. Therefore, we invite you

to share in a spirit of inquiry and evaluation as you participate in the 1977 Public Affairs Forum.

Its a pleasure for me to introduce to you our keynote speakers for this forum, Dr. Alex McCalla, Professor of Agricultural Economics from the University of California and Mr. Clarence Palmby, Vice President, Continental Grain Company from New York.

THE WORLD MARKET FOR WHEAT

by

Alex F. McCalla

and

THE ROLE OF MULTI-NATIONAL GRAIN FIRMS

by

Clarence Palmby

Reactor Papers

by

Bob Purdy

Joyce Robinson

Frank Kraft

George Skarda

Yvonne Snider

Gary Aklestad

Mike Bergland

THE WORLD MARKET FOR WHEAT

Dr. Alex F. McCalla, Professor
Agricultural Economics Department
University of California, Davis



Wheat is the most important food grain and one of the most important agricultural products moving in international channels. The United States is by far the largest exporter of wheat. Thus, world wheat markets are of vital interest to U.S. agriculture and are particularly important to wheat growing states such as Montana. This paper attempts to describe and analyze the world wheat market in terms of major participants, their behavior, and the implication of the structure for prices in the U.S. market and, therefore, the world market.

The paper begins by briefly describing the U.S. wheat industry and its interface with the world market. It then turns to a structural and behavioral analysis of the world market. It concludes with some comments on some theoretical issues and on possible structural changes and their implications for U.S. farmers and consumers.

1. The U.S. Wheat Industry and the World Market

The character and structure of the U.S. wheat industry is well known. Here we only summarize what others have written. The United States has produced in recent years about two billion bushels of wheat per year of which between 50 and 60 percent has been exported. This has represented between 40 and 45 percent of world exports. On the average, about 17 percent of world wheat production enters trade.^{1/} The U.S. produces a wide variety of wheat--hard spring, hard red winter, soft red winter, soft white and durum--in a large number of states geographically dispersed across the country.^{2/} Wheat is grown on over one million farms from Washington to Texas.

The marketing channels for wheat are complex. Eighty-four percent of U.S. grain is delivered by farmers to about 8,000 country elevators.^{3/} More than 40 percent of these primary marketings are to cooperatively

owned elevators.^{4/} The majority of this grain is then moved to 450 inland terminals and then for export to 80 port elevators.^{5/} Because we are mainly interested in the export market, one final structural statistic needs to be introduced. This is the degree of firm concentration in the export of U.S. grain. It has been estimated by several people that the five or six largest multinational export firms handle between 85 and 95 percent of U.S. grain exports and possibly as much as 70 percent of total world trade.^{6/} While this number is contested by the multinationals, they have not provided an alternative estimate based on their actual handlings. Thus on the surface it appears that the marketing channels for U.S. wheat exports become increasingly concentrated as the export market is approached. The remainder of the paper focuses on the export market and examines the U.S. role.

2. The World Wheat Market

Our approach to the world market is to first discuss conceptually market structure and marketing strategies and then to apply that analysis to the world wheat market.

International agricultural markets are complex arrangements involving a great variety of participants both public and private. These participants have strategies by which they seek to accomplish their objectives, given the structure of the market and the anticipated behavior of other buyers and sellers. For example, if an international market is characterized by a few large country exporters and importers, all or most of whom are pursuing state trading, the strategy pursued by a particular participant would likely be very different from the one pursued in a classical competitive market with many buyers and sellers. Similarly, if some national participants are pursuing domestic support policies which isolate internal prices from "world prices," the strategies of private firms in a market would differ from those they might pursue in a trade regulated by tariffs. In sum, strategies are conditioned by the structure of a market.

A marketing strategy is defined as those actions taken by participants in an international market to best accomplish their objectives given the structure of the market and their perception of the behavior

(objectives and action options) of other participants in the market. Given that most internationally traded agricultural raw products are reasonably homogeneous, the dominant element in a short-run marketing strategy would be pricing policy. The above definition of the strategy is essentially a short-run concept. Longer-run policy could seek to alter structural relationships in international markets as well as alter prices and quantities.

A. The Elements of Structure

Structure is defined as having three elements: (1) the quantitative character of trade, e.g., volume, direction, and country participants; (2) character and number of private traders; and (3) government policies. The first set of structural parameters identifies the major national participants in a particular trade, both on the export and import side, and identifies the trade flows between them. This structural element could be characterized by an origin-destination matrix of trade flows in a particular commodity. This element of structure becomes important particularly if national entities attempt to exercise market power directly by influencing quantity flows and/or prices.

The second element of structure is the character and number of private firms operating in the international market. If one assumes that producers and consumers in both exporting and importing countries are small and numerous, then a competitive situation appears to exist with respect to primary production and final consumption. Market structure analysis then usually deals with the number and character of firms which perform intermediary or transformation functions in a market. However, unlike national

market structure analysis where one is usually concerned with one set of firms, in international trade the possibility of at least three types of firms emerges. First, there are those firms which buy from farmers and collect products into larger volume units. These firms could sell the product to domestic users or sell directly to importers or to international trade intermediaries. For purposes of this paper, this first group contains firms having commodities available for export which we call "exporters." A similar set of firms exists in the importing country which procures products for domestic use or sale either from domestic or international sources. These firms are called "importers." A third set of firms are specialized national or multinational export-import firms who buy from "exporters" and sell to "importers." For purposes of this paper these are called "international middlemen." That such middlemen could exist as distinct from "exporters" results from the additional complications of international marketing. Specialized knowledge in exchange rate conversion, ocean shipping, international legal issues, and particularly information requirements about the international market are not normally areas where domestically oriented firms have specialized expertise. While the distinctions between these three classes of firms could be blurred in some markets, they generally can be identified in most international commodity markets. The number of firms in each of the classes is also important. If there are one or few firms, then it would be theoretically possible for firms to exercise market power by influencing, directly or indirectly, price in the market.

In summary then, there are three classes of firms and two number classifications--one or few or many. Chart I presents the full set of possibilities.

Chart I.

<u>Exporters</u>	<u>International Middlemen</u>	<u>Importers</u>
one or few many	one or few many	one or few many

It is immediately clear that there are eight possible combinations involving all three sets of firms and four additional outcomes involving exporters and importers bypassing middlemen. This latter outcome would be likely if there was market concentration in all three sets of firms thus making it profitable for exporters and importers to bypass middlemen.

The third structural element which must realistically be taken into account in international markets is that of government policies in both exporting and importing countries. For simplicity purposes, only three types of policies are defined. First there are those policies which do not directly influence internal prices or those policies which modify price in a predictable way. In exporting countries these could be either no domestic farm policy at all or policies such as acreage controls or deficiency payments which do not involve the government directly in influencing domestic prices. In importing countries this could be no import restrictions or the use of simple tariffs. A second class of policies would be those that isolate domestic prices from world prices. In the case of exporters, this could be domestic price support and/or domestic procurement programs which maintain domestic prices at a level

different from international prices. In this case exporting countries would have to pay export subsidies to be competitive. In the case of importers this could be nontariff, quantitative restrictions such as quotas or variable import levies which maintain different domestic prices. A third class of policies would be where exporters or importers engage directly in state trading. Columns 1 and 2 of Chart II outline the set of possibilities.

Chart II.--Combinations of
Government Policies

<u>Policy options of exporting countries</u>	<u>Policy options of importing countries</u>	<u>Significance of number of pri- vate firms</u>
1. None or nonprice	None or tariff	H
2. None or nonprice	Nontariff, quantitative $P_o > P_w$	M
3. None or nonprice	State trading	M
4. Domestic price support $P_o > P_w$	None or tariff	M
5. Domestic price support $P_o > P_w$	Nontariff, quantitative	L
6. Domestic price support $P_o > P_w$	State trading	L
7. State trading	None or tariff	M
8. State trading	Nontariff, quantitative	L
9. State trading	State trading	L

If one now combines the structural elements of firm numbers (and market power) and possible government policies, it is clear that there are a substantial number (288) of possible bilateral combinations, not to mention multilateral combinations. However, with different combinations of government policies the number of firms varies in importance. For example, with policy option 1 with no government policy, the number of firms could have a strong influence on international pricing arrangements. With cases 2, 3, 4, and 7 the number of firms could have moderate significance.

With cases 5, 6, 8, and 9 the number of firms would have limited or no significance. This level of significance of the number of firms is also identified in Column 3 of Chart II as (H) high, (M) moderate, and (L) low for lower or no significance. In the earlier paper,^{7/} a complete taxonomy of possibilities combining firm numbers and government policy was developed. However in this paper we now turn directly to an analysis of the world wheat market using these general concepts.

(A) Nature of Trade in Wheat

Table 1 presents a matrix of actual trade flows in the international wheat market for three one-year periods: 1966-1967, 1970-71, and 1974-75. The sums in the margin to the left of and above the double line by each exporter or importer indicate the total quantities exported or imported by each major trader, and the numbers in parentheses on the right and on the bottom margins indicate the percentage that country is of total exports or imports respectively in the world market. The bracketed ratio in the cells of the matrix, next to the actual trade volumes, indicates the importance of that bilateral flow to each party. The numerator (round bracket ()) is the percentage of the exporter's total exports going to that importer. The denominator (square bracket []) is the percentage of that importer's total imports coming from that exporter. Thus, the greater the value of the numerator or denominator or both, the more significant is that bilateral trade flow to one or both parties. For example, if one looks at 1974-75, one finds that the United States exported 28.0 million metric tons of wheat, which was 45 percent of total world

exports. In the same year the EC-9 imported 5.2 million metric tons, which is 8 percent of world imports. In the same year the EC imported 2.1 million metric tons from the USA. The ratio of 8 over 41 means that this bilateral flow represented 8 percent of US exports and 41 percent of EC imports. The percentage at the bottom of the EC-9 column shows the percentage of EC exports from the exporters listed. The bracketed percentage at the right of the US row shows the percentage of US exports going to the identified importers.

The data suggest several things. First, the proportion of total trade accounted for by the six largest exporters consistently exceeds 95 percent. Three of those six, the United States, Canada, and Australia account consistently for more than 75 percent of exports. Thhhhe US share has risen consistently, that of Australia has remained relatively constant, and Canada's share, using these years, has fallen. However, using five year averages, 1965-66 - 1969-70 and 1970-71 - 1974-75, Canada's share is relatively constant. The participation of Argentina, the EC, and the USSR is more variable. On the import side an opposite trend is occurring, in that concentration in terms of importing countries and regions is becoming less. The traditional European market is declining in relative importance. China and Japan have held relatively consistent shares, while the Arab and Middle East countries are of rising importance. The participation of the USSR and India is variable largely as a function of their weather patterns. More than one-third of the wheat exports go to additional countries not listed.

Given this structure of the international wheat market in terms of country participants, two important questions emerge with respect to

TABLE 1

World Trade in Wheat, Selected Years by Sources and Destinations in Millions of Metric Tons and Percentages
Numbers in Round Bracket () = Percentage Importance of Destination; [] = Percentage Importance of Source

Exports by:				Imports of major seven														Imports as a percentage of designated exporter
Country and major exporters	Year	Quantity	Percent of world	EC-9		Japan		People's Republic of China		India		USSR		Arab countries		Brazil		
		M. mt.		M. mt.	percent	M. mt.	percent	M. mt.	percent	M. mt.	percent	M. mt.	percent	M. mt.	percent	M. mt.	percent	
United States of America	1966-67	53.0	100	9.0	(16)	4.2	(7)	5.0	(9)	6.1	(11)	2.9	(5)	6.6	(12)	2.0	(3)	(65)
	1970-71	54.3	100	9.7	(18)	4.7	(9)	3.7	(7)	2.2	(4)	.3	(1)	8.6	(16)	1.0	(3)	(58)
	1974-75	63.3	100	5.2	(8)	5.3	(8)	5.5	(9)	6.2	(10)	2.8	(4)	12.0	(19)	1.7	(3)	(61)
Canada	1966-67	20.0	[36]	2.4	(12)/[27]	2.1	(11)/[51]	--	--	4.2	(20)/[67]	--	--	3.3	(16)/[50]	1.2	(6)/[43]	(65)
	1970-71	20.0	[37]	3.3	(27)/[34]	2.9	(14)/[61]	--	--	1.4	(7)/[66]	--	--	2.4	(12)/[28]	.8	(4)/[44]	(54)
	1974-75	28.0	[45]	2.1	(8)/[61]	3.1	(11)/[58]	1.5	(5)/[27]	4.3	(15)/[69]	1.0	(3)/[35]	4.5	(16)/[38]	.6	(2)/[36]	(60)
Australia	1966-67	14.8	[27]	3.6	(24)/[40]	1.6	(11)/[39]	2.7	(17)/[49]	1.6	(11)/[24]	2.7	(18)/[94]	.*	(*)/[1]	--	--	(81)
	1970-71	11.6	[21]	3.3	(29)/[34]	1.0	(9)/[22]	2.3	(20)/[64]	.6	(5)/[28]	.3	(3)/[100]	1.5	(13)/[17]	.4	(3)/[21]	(82)
	1974-75	11.2	[18]	2.5	(22)/[48]	1.2	(11)/[22]	2.4	(21)/[43]	.5	(4)/[8]	.3	(3)/[11]	1.0	(9)/[9]	1.0	(9)/[59]	(79)
Argentina	1966-67	7.0	[13]	.6	(8)/[8]	.4	(6)/[10]	2.2	(31)/[43]	.4	(6)/[7]	--	--	.7	(10)/[10]	.1	(1)/[4]	(62)
	1970-71	9.5	[18]	1.9	(20)/[19]	.8	(9)/[17]	1.3	(14)/[36]	.1	(1)/[5]	--	--	2.7	(28)/[31]	--	--	(72)
	1974-75	8.0	[13]	--	--	1.0	(12)/[18]	1.2	(15)/[23]	.3	(3)/[4]	.7	(8)/[23]	2.0	(49)/[16]	--	--	(87)
Mexico	1966-67	3.1	[6]	.8	--	--	--	.3	(10)/[6]	.*	.*	.*	.*	.*	(1)/[0]	1.2	(41)/[46]	(80)
	1970-71	1.7	[3]	.6	(33)/[6]	--	--	--	--	.*	(1)/[1]	--	--	.1	(8)/[1]	.6	(36)/[34]	(76)
	1974-75	2.2	[3]	.2	(10)/[4]	.*	(1)/[1]	.2	(10)/[4]	.3	(12)/[4]	.7	(31)/[24]	.4	(19)/[3]	.1	(4)/[5]	(87)
Other major exporters	1966-67	3.9	[7]	--	--	--	--	.1	(12)/[1]	X	X	.1	(3)/[5]	1.3	(33)/[19]	--	--	(38)
	1970-71	2.9	[5]	--	--	--	--	.*	X	--	--	--	--	1.5	(52)/[18]	--	--	(52)
	1974-75	2.1	[11]	--	--	--	--	.2	(2)/[3]	.7	(10)/[12]	--	--	3.3	(46)/[28]	--	--	(58)
Percentage total by major exporters	1966-67	4.1	[7]	.*	(1)/[0]	--	--	--	--	--	--	--	--	.7	(18)/[11]	.*	(*)/[1]	(19)
	1970-71	2.1	[13]	.2	(3)/[2]	--	--	--	--	--	--	--	--	.4	(6)/[5]	--	--	(9)
	1974-75	4.0	[8]	--	--	--	--	--	--	--	--	--	--	--	--	--	--	(0)
Percentage total by major exporters	1966-67		[99]		[82]		[100]		[99]		[100]		[100]		[91]		[94]	
	1970-71		[97]		[95]		[100]		[100]		[100]		[100]		[100]		[99]	
	1974-75		[96]		[93]		[99]		[100]		[97]		[93]		[94]		[100]	

0 = less than 50,000 tons
-- = no trade

- (1) Durum is excluded
(2) 1974-75 data preliminary
(3) Arab Countries - Near East (except Afghanistan, Cyprus, Israel, and Turkey) and North Africa.
(4) U.K. trade is included in EC-9 from 1966.

Source: International Wheat Council: Review of World Wheat Situation and World Wheat Statistics various issues.

strategies. What strategy would an exporter and an importer pursue facing each other bilaterally, given each other's objectives. Secondly, how would those strategies be modified when other exporters and importers entered the market. In theory at least the sum of these multilateral strategies should yield some insight into the price-making mechanism in this market, as influenced by other factors such as stock holding and government policy interactions.

(B) Objectives of Major Participants

To proceed with the question of strategies, one must first suggest what the objectives of the major participants might be. Possible objectives for each major participant are discussed in turn.

(a) Private Traders

It seems reasonable to assume that private traders in the market seek to maximize short-run profits. If the number of traders is small so that they must take into account the behavior of their competitors then this profit maximizing objective may be modified by such factors as pricing to limit or prevent entry of new firms, maintenance of market shares, etc. It is likely that the objectives of private firms would be concentrated within a season and would not involve inter-season storage.

(b) Exporting Nations

USA

Recently the USA has not pursued a domestic policy that directly affected prices and quantities of grain exports. Now that domestic prices in the US have fallen below the current loan rate, a new set of policy machinery may come into effect. This would return the US to pre-1972 conditions where export subsidies and concessional sales (PL 480) were

important. However, for current conditions let us hypothesize that the US government's implicit objective function is to maximize foreign exchange earnings subject to preventing extreme domestic price raises. This objective is equivalent to seeking to maximize total export revenue.

Canada

The Canadian Wheat Board as a monopoly sales agency (state trader) would function as a producer marketing board and would seek to maximize producer returns. Therefore, in bilateral relationships the Wheat Board would behave as a monopolist. This could involve inter-year storage.

Australia

The Australian Wheat Board also would likely seek to maximize producer returns. However, given the relatively limited supply of storage capacity, this objective would be modified by the requirement to dispose of most or all of the crop annually. This would imply for Australia a strategy of under-pricing competitors to the extent necessary to dispose of yearly output.

European Community (EC-9)

What the objective function of the EC as an exporter is, is less easy to define. The dominant factor in all EC pricing decisions is the level of domestic price support which is determined mainly for domestic reasons. However, the EC (France) is a significant exporter of soft wheat to third countries. To the extent that there is an exporter objective function it would be to dispose of excess supplies at minimum export subsidy costs. The pricing behavior of the EC would then be one of setting prices, market by market, so as to dispose of excess supplies as quickly as possible. EC-9 wheat export policy is also likely closely tied to EC feed grain policy as some excess wheat is converted to feed grains within the community.

Argentina

At the moment Argentina is operating without an export sales monopoly. The National Grain Board had performed as a state trading monopoly from 1974-76. Stated Argentinian objectives are to increase exports and to maximize foreign exchange earnings.

USSR

The USSR is a long standing participant on the export side of the international wheat market. In the main its exports go to Eastern Europe. As such its objectives would appear to be to supply allies with those quantities in excess of domestic needs at negotiated prices. The USSR engages mainly in bilateral agreements and barter sales.

(c) Importing Nations

EC-9

The EC as an importer likely begins by the determination of domestic price support levels under the Common Agricultural Policy (CAP). Given those levels and the resultant anticipated production, the EC would likely seek to minimize import costs and simultaneously maximize variable levy income on a fixed quantity of imports. The latter is the life blood for domestic structural policies, export subsidies, and monetary compensation amounts (MCA). This dual objective would lead the EC to seek the lowest possible offer price in international market.

Japan

Japan imports its wheat through a state trading monopoly. Wheat is purchased at a world price and resold internally at higher prices. It is likely that Japan begins by determining the quantity of imports desired and then seeks to buy that quantity at the lowest price, therefore maximizing skimming profits. Given that Japan is a consistent importer, reliability and continuity of supply are also likely important.

China, India, USSR

The next three importers probably all have similar objective functions. Their dominant national objective is to minimize or eliminate the need for imports. Stated conversely, they have goals of national self-sufficiency. Their entry into the international market then is to cover short falls in domestic production resulting primarily from weather variations. In the case of the USSR recent major entrances into the world market for both wheat and coarse grains reflect a policy decision to sustain domestic meat production in the face of short grain supplies. As such these three importers are destabilizing elements in the market, entering only when their own production is down. They seek to buy at the most advantageous price. All three pursue state trading. This fact coupled with the almost random character of import demands gives these countries potentially strong informational advantage in dealing with exporters. For example in 1972, when the USSR was a major participant in trading and the only one to know the full dimensions of their needs, they succeeded, by dealing bilaterally with exporters and exporting firms, in extracting producer and consumer surplus from US farmers, US consumers, and exporting firms alike.

Arab Countries and Brazil

These last two elements in the wheat import market are less homogeneous but probably pursue a common objective function of satisfying rising domestic demands at minimum cost.

(C) Bilateral Strategies

If the structure of the international wheat market is as postulated and participant's objectives are as outlined then one can begin to address the question of strategies. Let us begin by asking what strategies each of the export participants would pursue if they were paired in isolation with each of the import participants. Consider first the case of exporters

facing the EC market. As far as the United States and Argentina are concerned, it is hypothesized that a limited number of international middlemen face the CAP and the variable levy. In the remainder of the cases with respect to the EC, a state trader faces the variable levy. In both cases the rational bilateral behavior would be to raise export prices to the level of EC threshold prices and extract the variable levy income from the EC. In the case of the middlemen this would require collusion or at least rational concert. In both cases it would also require price discrimination between international and domestic markets unless the exporting countries wanted to have a substantial supply response from rising domestic prices. The fact that world prices are not at the level of EC threshold prices must be explained by the actual multilateral nature of the market. We will return to this point later.

In the cases of all other major importers discussed, state trading is pursued. Thus, whether one is talking about the US and Argentinian cases or the cases of the state trading exporters, the bilateral relationships are ones of bilateral monopoly or bilateral oligopoly versus monopsony. In both of these sets of cases traditional economic analysis offers us few clues except as to the possible upper and lower bounds of price solutions. Thus the outcome would be a negotiated one which would depend upon the relative market power of the competing parties. Looked at in terms of a set of bilateral relationships, then the predominant character of the international wheat market is one of negotiated outcomes on the basis of relative market power and is not consistent with bilateral free trade models.

(D) Multilateral Strategies

The apparent reality of the world wheat market is that something approaching a common world trading price is determined. Or stated conversely,

the market is apparently not characterized by a set of bilateral prices differing for each pairing of exporters and importers. This convergence to a common price no doubt results from participants in the market modifying their strategies on the basis of their own supply-demand conditions and on the basis of how they perceive their competitors will behave given their actions. One could postulate that given other competitors and other buyers, participants in the market would behave as if they were competitors with a competitive deterministic solution resulting. Not an insignificant number of analysts appear to have made this jump and proceeded to analyze the international wheat market in spatial competitive terms. On the basis of the analysis to date however, this may be too simplistic an approach. An alternative approach would be to attempt to dissect and regroup elements in the bilateral matrix to ascertain if some subsets of exporters and importers emerge which are particularly influential in price making. At the same time another subset may be identified as price takers in a multilateral framework.

To begin with, let us differentiate two possible cases. One would be the case where the market has a tendency to oversupply, or a so-called buyers' market. Here the potential to exercise market power rests more with buyers than with sellers. The opposite case is that of market shortage, or a sellers' market. Here the potential for sellers to exercise market power is greater than for buyers. It seems appropriate then to investigate more fully the potential of major importers and exporters to exercise price influencing market power.

On the import side the EC, by virtue of generally setting internal prices above external prices and isolating domestic markets from changes in world prices, has limited potential to exercise market power. For

world prices below intervention price, the EC demand for imports is perfectly inelastic with respect to "world price." Therefore, the EC, by virtue of domestic policy, chooses not to exercise direct market power. However, the EC does have an indirect influence on world prices by the choice of internal support levels, which in turn influences the quantity that the EC will buy on the world market. In the case of Japan, the internal mechanism permits the exercise of market power but Japan is a sufficiently small element in the world market that without collusion it would be difficult to exercise that power. The Arab countries as a group are of rising importance in the market, but to date have not apparently joined together to attempt to influence prices. Brazil is so small in the market that the exercise of power is unlikely.

This leaves the USSR, China, and India as possibilities on the import side. Of these three only the USSR appears large enough to seriously influence price by her own behavior. This size coupled with the erratic in and out behavior suggests that on the import side of the market, the USSR may be the major potential factor. It has been argued that 80 percent of price variability in the international market has come from the USSR.^{8/} Further, there appears to be strong evidence that in 1972, when the wheat market could be characterized as a buyers' market, the USSR did in fact influence world grain prices greatly. In the long run the ability to predict USSR weather and crop supplies would contribute greatly to predicting world wheat market outcomes.

In summary, the fact that there are no really dominant importers and that the number of importers of wheat is rising suggests that, with the exception of the USSR, importers in general are more likely to behave as competitors seeking to minimize import costs.

Three other factors relating to importers need to be mentioned before proceeding. First, despite the fact that the number of importers is increasing, the number of "traders" in the market may not be. Most of the new entries into the market purchase via state trading monopolies. This, coupled with the emergence of fewer, but larger, firms acting as principal importers in traditional European and Japanese markets may in fact reduce the number of traders. Second, given this changing structure of importers, there appears to be a greater tendency for bilateral price-quantity contracts bypassing the open market, particularly with state traders such as Canada and Australia. Third, in periods of short supplies, small importers seeking, regardless of cost, to assure supplies could force market prices higher. However, this influence is limited by the amount they buy. All of these factors could modify the role of importers in price formation but would not fundamentally alter relative power relationships.

On the export side much greater country concentration exists. Three countries account for more than 75 percent of exports and six account for 95 percent. Of these six, three potentially can be eliminated as exercisers of power. The USSR essentially supplies allies in Eastern Europe, Argentina is a very small factor and probably is a price taker and the EC seeks to dispose of excess supplies at world prices with more than 50 percent going to markets other than the ones included in this analysis. Of the remaining three, Australia is the smallest and because of the lack of willingness and capacity to store substantial quantities in inter-year periods appears to pursue a strategy of price shading to dispose of supplies and is therefore likely a price taker. This leaves events in the US and Canada as the major possibilities for price influence, with the USSR

as a powerful random element. Small exporters in periods of excess supply could trigger price reductions by shading prices to dispose of supplies. This impact would be limited by their supply quantities and the willingness of large exporters to follow the prices down.

If the US were pursuing a collective national policy which differentiated domestic price from international price and therefore paid export subsidies, it is likely that given the volume dominance of the US in the market, the US would set price. If the recently reported discussions between Secretary of Agriculture Bergland, and the Minister in Charge of the Canadian Wheat Board, Mr. Lang, lead to collective behavior of Canada and the US, the pricing structure in the international market would drastically change. But in the absence of direct formal US policy, the search for price dominance in the wheat market, particularly a sellers' market, must focus on interactions between the private firms operating in the US market and the Canadian Wheat Board.

There are five major international firms and many minor firms operating in the US market. Further, these same international firms can and do buy from the Canadian and Australian Wheat Boards without prior sales contracts. They also actively participate in Argentina. Further, there is at the moment no government differentiation of domestic and international prices in the US market. This, coupled with the fact that now more than 60 percent of US wheat production is exported, points inescapably to the crucial role that the multinational grain firms play in determining world wheat prices. This role is important even if the multinationals do not control large volumes of physical handling facilities or make a high percentage of primary grain purchases. This role is further enhanced by a likely strong advantage held by these firms in terms of information about

market conditions around the world. Thus, while the Canadian Wheat Board, by virtue of the importance of the volume of wheat it handles and its willingness to hold stocks, can place limits on prices determined in the US (and export market), it is likely not in a position to be a dominant price setter. It would seem then that the Board would attempt to anticipate actions of the export firms and govern its sales so as to maximize its objective function.

The above conclusion does not suggest that the behavior of the multinationals is necessarily bad, collusive, or deleterious to any or all participants. It rather suggests that if we really want to understand price behavior we should start by trying to understand the behavior of the multinationals. It is also crucially important that we try to understand the interactions between spot and futures prices in the US market. An active futures market with a large number of participants could modify the influence of the major exporters. If they behave as competitors, a competitive approximation of the market may be appropriate. If they do not, some other approach either through imperfect competition theory, game theory, or decision theory may be more appropriate. In terms of performance in the market, if one could construct a model of world trade which realistically introduced the structural elements of government policy it should be possible to investigate whether alternative behavioral assumptions about the multinationals would cause deviations from a competitive solution.

One final point needs to be made. To the extent that the multinationals are pure traders (i.e., are intermediaries between producers and final consumers who may take ownership of the products) as opposed to commission merchants or merchandisers, they will be more interested in

price changes, their movements over time and the volume of trade than in the absolute level of prices. This follows from their short-run objective of maximizing profits. If the multinational were interested in longer-run price levels, they would have to be prepared to store between years. Therefore their information network is particularly important in anticipating short-run changes in supply and demand conditions. Whether their concerns with price differences (spreads) and volume leads them to constantly reduce price to gain volume, thereby leading to a competitive solution as is sometimes argued, needs further investigation.

Our analysis of the international wheat market has raised more questions than it has answered. The only hope is that the approach taken here may suggest some alternative ways of looking at markets and trying to understand price determination in international markets which by all standard measures is apparently not amenable to analysis by classical free trade models. In the remainder of the paper we discuss some theoretical issues relating to the market and mention some possible changes in the character of the international market.

3. Some Theoretical Issues

In the remainder of the paper we turn to some more general discussions of the issues raised about the interface of a national marketing system with an international market. These are conjectural but hopefully will provide some basis for discussion. In evaluating the performance of a grain marketing system, it is important to identify the various sectors of society including the producers and consumers which could be affected by the system. Also it is important to recognize the heterogeneous nature of producers including factors such the size of producing units and their geographic location. In the Canadian case, for example, the emphasis in

the Canadian marketing system has been both on efficiency and equity through the use of quotas and pooled pricing. This has not been the case in the US. The majority of producers may be willing to give up some efficiency for equity considerations as appears to have been the case in Canada. However, large farmers who generally have superior marketing skills cannot utilize these to the same extent in a board system as they can in an open market system. This is also true with respect to futures market activities where these markets are used, if even to a limited extent, by the larger farmers because of financial backing and superior information. However it is not necessarily best to have a system where equity considerations are emphasized at the expense of efficiency considerations.

Generally, marketing agencies have different objectives in mind. Among the objectives, for example, of the Canadian and Australian Wheat Boards is maximization of producer returns while private trading companies attempt to, among other things, maximize returns to shareholders. A priori one cannot conclude from this which is the best system for producers, consumers, or society. However, if the Board is as aggressive as the private sector in selling grain and it can technically market grain as cheaply as can the private sector, the Board has to generate producer returns at least as large as would the private sector. However, under these two assumptions if the private sector is less than perfectly competitive producer welfare under the Board has to be superior to that under a private system. At the extreme, to maximize producer returns, the Board would not have been competitive either which results in a consumer loss, a producer gain, and a total net loss to society.

As with all theoretical constructs, the importance of assumptions must be recognized. If, unlike in the above case, the private sector

is more aggressive in selling than is the Board, and is technically more efficient in grain handling, then even if the private sector earns "excess profits" by not being competitive, both producers and consumers could still be better off with a private grain marketing system. Thus on theoretical grounds, different conclusions can be reached about the performance of different types of marketing systems.

Excess profits in theory imply excess marketing margins (i.e., the difference between what the producer receives and what the product is finally sold for). In the Canadian system, the average marketing margin per bushel of wheat charged by the Canadian Wheat Board is known to producers and to the government through published sources. This is not the case in the US. Unless the marketing margins charged by private firms are made available, it is extremely difficult to prove whether or not the private grain trade is engaged in any form of monopoly pricing through collusive type of activities.

Under different assumptions one can show that the existence of futures market activities is generally desirable for the entire grain industry. However one should remember that many countries of the world, unlike the US, do not have active futures markets in grain. The issue as to whether or not futures market insure competition among grain trading firms needs to be further researched. Also research has to be done on which groups gain from futures market activities and which lose. A question which comes to mind is why don't many of the grain producers use these markets? In theory, the role of information is very important in seeking the answers to these questions. It appears that the large producing and marketing firms, because of their superior information sources, could gain from futures trading at the expense of other sectors of society. This type

of activity, because one is dealing with many different types of producers, again raises the efficiency vs. equity question.

There are many more important issues which have to be considered in evaluating performance. However, only one more will be discussed here. Too little attention has been paid to the role of countries and/or trading firms in "manufacturing" price instability to their advantage. Theoretically it can be shown that a country or a private trading firm (if it has the power to manufacture price instability through storage activities) can gain from producer price instability; whereas a Board in maximizing producer returns will use stocks to create price stability. The extent to which firms or government intentionally manufacture price instability has never been carefully examined. However, many have hypothesized that the Soviet Union, for example, uses this strategy in its trading activities with Western nations.

4. Some Possible Changes in World Markets

(A) International Commodity Agreements

International discussions to stabilize wheat prices began in the 1930's. However the first international agreement for wheat did not come into effect until 1949. This and subsequent agreements in 1953, 1956, 1959, 1962, and 1967 have been multilateral purchase and sales agreements. The current International Wheat Agreement (1971) has no economic provisions and is essentially a statistics-gathering operation. The US and Canada have been members of all of these agreements.

Among the major problems with commodity agreements is that not all sectors of society benefit from price stability brought about by the agreements unless some form of compensation is paid. For example, if an importing nation receives most of its instability from external sources,

it will generally prefer the price instability to stability even though, from all countries viewpoints, stability is desirable. International compensation is necessary in order to make the importers want to negotiate the price agreements. In other cases it can be shown that importers usually prefer stability while exporters do not, especially producers in exporting countries. In view of the above, unless international compensation schemes can be worked out, commodity agreements will continue to be opposed by many groups. Since compensation is difficult to work out (at least at the international level) effective commodity agreements are unlikely in the near future.

Also with any type of agreement, prices and quantities have to be agreed upon. Recent discussions have centered around a North America wheat cartel. Conceptually, if Australia, Argentina, the USA, and Canada formed a cartel, it is possible that they could behave as an export monopolist as does OPEC. In this case the solution deviates from the competitive one, but the exporting countries are better off than under competition. However to bring about such a cartel, the quantities produced by the exporters have to be less than those under a competitive solution.

Major exporters do not seem to be extremely interested in establishing a cartel which would have monopoly power in the world wheat market. In the absence of a formal cartel, importers and exporters generally will not agree on a price since obviously importers want to negotiate prices on the low side while exporters want to negotiate on the high side. It is important to note that if exporters can negotiate higher prices generally they will have to be accompanied by supply controls.

(B) Buffer Stocks

Many proposals have been set forth on establishing grain reserves to help smooth out the recent large price swings and to provide food in the case of severe droughts or the like in any given country. To date a stock policy has not been agreed upon. First, there is little agreement as to who should hold and contribute grain for the grain reserve. Second, given the current large build up stocks there seems to be little interest in worrying about having stocks available for emergency relief. Also when grain is in plentiful supply, many importers are not interested in an international reserve policy. Third, there is the issue as to who gains and who loses from reserves. As already pointed out, in the absence of compensation some groups stand to lose from reserves and unless their interests are also catered to, the establishment of a reserve scheme will be met with some opposition.

It is important to note that buffer stock schemes cannot bring about a general increase in producer prices. At best a stocks policy (if managed properly) can even out price swings and provide emergency relief. A stocks policy is unlikely to increase producer welfare substantially.

(C) Structural Changes

Little is known on the extent to which the Canadian and Australian Wheat Boards and the US private grain industry exert monopoly power in world trade. Also little is known on the extent to which, if at all, the private grain trade in the US is engaged in price collusive activities and the extent to which the private grain trade, because they are multinational corporations, at times help producers in other countries at the expense of US producers. Because they are international in scope and operate on marketing margins, it seems that often the source of supply of grain is immaterial as long as it meets export commitments.

Some desirable changes, at least for improving producer welfare, have already been implemented among which is reporting grain sales which are above certain quantity levels. Also a growing percentage of the grain trade is negotiated on a government to government basis which means that if this trade continues to grow the private grain trade would be more involved in grain shipping, storage, and purchasing from producers than in price-quantity contracts. Government to government contracts should be desirable since through long-term agreements (which for example the Canadians have often made) some degree of price stability can be achieved. However as these types of contracts grow, the US market which now acts as a price discovery market for the world would cease to exist and hence there would no longer be a central market mechanism. The importance of this loss of a price discovery market may have long-run implications and needs careful study.

A desirable change in the US system might be to have more disclosure by the private sector on marketing margins. This could take the form of having the large companies disclose the price received from a foreign buyer for sales above a certain quantity. This could provide data on the degree of competition in the world grain industry.

5. Concluding Comments

In this paper we have attempted to do three things. First, to review, using behavioral and structural constructs, the world wheat market. Second, to raise some theoretical issues relating to the type of marketing system a country has. Third, to discuss some implications of often discussed changes in the world wheat market. In all cases the analysis is tentative and raises as many questions as it answers. Hopefully, however, it will provide the basis for further discussion.

Footnotes

1/ See Wheat Situation, Economic Research Service, USDA, WS-241, August 1977.

2/ See Lowell D. Hill and P. J. Van Blokland, "Grain Marketing", Chapter 1 of Advances in Cereal Science and Technology.

3/ 94th U.S. Congress, 2d Session, Report on Irregularities in the Marketing of Grain, Joint Committee Print of Report prepared by General Accounting Offices for Senate Agriculture and Forestry Committee and House Agriculture Committee, US Government Printing Office, February 17, 1976.

4/ Hill and Van Blokland, op cit., p. 35.

5/ Report on Irregularities in the Marketing of Grain, op cit., p. 3.

6/ See for example US Congress, "Senate Foreign Relations Committee," Multinational Corporations and U.S. Foreign Policy, hearing before the Subcommittee on Multinational Corporations of the Committee on Foreign Relations, US Senate, 94th Congress, 2d Session on International Grain Companies, June 17, 27, and 24, 1976, Part 16, pp. 2 and 7; John Frevald, Grain Trade: The Key to World Power and Human Survival, New York, Stein and Day, 1976, p. 116.

7/ Alex F. McCalla, "Strategies in International Agricultural Marketing: Public vs. Private", paper presented to "Symposium on International Trade and Agriculture", Tucson, Arizona, April 17-20, 1977, pp. 7-10.

8/ A. B. Mackie, "International Dimension of Agricultural Prices," Southern Journal of Agricultural Economics, Vol. 6, 1974, pp. 11-22.

THE ROLE OF MULTI-NATIONAL GRAIN FIRMS

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I am pleased to be back in Great Falls to participate in this forum and discuss the organization of the U.S. grain export industry. Just as every doctor has his favorite disease, I have a favorite subject--this one.

About 30 months ago, I presented a paper titled: World Grain Marketing Systems--Do They Mesh? You will recall that we were passing through a period of relatively high wheat and coarse grain prices. I concluded my remarks with these three questions:

1. In times of tight grain supply, will the people of the United States be prepared to let a free market price do its job of rationing grain utilization in another period like that which has or is passing?
2. In times of abundant grain supplies and low world prices will the European Economic Community go back to its policy of paying almost unlimited restitutions for the export of grain?
3. Under the same situation of abundant supply and falling domestic and world prices, will the United States again adopt a policy of subsidizing the export of wheat?

The answer to question number 1 has not been wholly answered. There was a period in late summer and early fall of 1975 when the Congress and the Administration then in power promoted a "slow-down" in grain exports, which had a negative impact on prices. I predict that in future years, the likelihood of federal intervention will vary in direct relation to level of government price protection to producers.

Question number 2 has been answered positively, though somewhat sporadically.

The answer to question number 3 is "no. . .but!" What do I mean? The target price concept as it applies to wheat continues to be the law of the land, and deficiency payments to producers promise to be

substantial. Congress has said loan rates shall be kept at relatively low levels and deficiency payments will be utilized to maintain some level of income to wheat producers. Export subsidies as such are not being utilized, but wheat producers are receiving payments based upon production consumed domestically and for export. I shall have more to say on this later.

In discussing the role of a grain firm in the marketing of your commodities, I want to describe in some depth the national and international picture. Following this, I will make specific reference to pricing provisions in an international wheat or grains agreement and the matter of export subsidies.

The global grain market is a changing arena - vast grain surpluses at one extreme and disastrous deficits at the other.

Somewhere in my recent reading, I happened across the Montana State seal, and it struck me that some elements of that design could describe the relationship between Montana producers and the grain export firms. In the seal, as you know, the plow is rather prominent and--to my mind--represents the best efforts of Montana farmers. The pick and shovel in the seal could be said to represent the grain export organizations in sifting and probing domestic and world markets in the producers' best interest. We value this relationship.

In this challenging marketplace, the international grain company stands prepared to match commodity to market, origin to destination and seller to buyer in a timely way to maximize returns to producers and minimize costs to consumers.

Assuming the risk management inherent in nearly every grain transaction, grain companies have proven their ability to cope with an almost infinite number of market variables.

America's grain supplies are a major force in the world commodity market. U.S. grain marketing organizations and auxiliary institutions are vital to global grain trade, enabling this country to account for one-third to one-half of total world grain exports.

Equally important is the U.S. environment as the only one for establishing prices or values based on global supply and demand forces. The stimulus of free enterprise in an open market system is the key

to America's involvement in the world grain marketplace.

The open market system in this country permits almost any buyer in the world to compete for our grain supplies on equal terms with domestic customers.

American farmers under this same concept can choose when and where to sell their grain, with a variety of marketing options open to them. One marketing option which I favor is the grain resale program. This policy keeps the grain at or near the production area.

The U.S. system for grain sale, transfer, storage and transport is like no other in the world. Facilities--small country stations to large terminals and export elevators--are owned by a wide range of individuals, companies and cooperative groups.

Commodity exchanges offer an orderly system for buyer and seller to make contact, where prices are arrived at in free and open bidding. Buyers and sellers are protected through standardized contracts as well as precisely-defined trade rules.

The open market concept and readily available public information combine to form the price discovery system which is at the heart of the organized futures market. This unique competitive price discovery process involves the active participation of thousands of hedgers and speculators. Each participant has an independent view regarding the supply/demand situation.

Futures contracts serve two functions: as business management tools and as media for speculation. In business management practice, futures contracts are used in hedging, as temporary substitutes for merchandising transactions in "actual" or "cash" commodities.

As media for speculation, futures markets represent a focal point of fact, probability and rumor from around the world, reflecting the consensus of traders with conviction. . .and money. This group could include such disparate interests as Japanese trading companies, West European soybean crushers, feed manufacturers and flour millers, and Brazilian soybean merchants and processors. Some measure of international regard for validity of U.S. futures markets is seen in the fact that Thailand uses Chicago corn futures in their pricing formula for corn contract negotiations with Japan and Taiwan.

Futures markets as used by the grain industry allow the transfer of the risk of absolute price movements to those most interested in such movements. The hedging action allows merchandisers, processors and exporters to be in the market always with a price for buying or selling grain at any location or time. Use of the basis mechanism makes it possible to establish a cash price at a given location for a specific time period. The system makes it possible for the producer to collect carrying charges including payment for storage through the marketing year.

In the final analysis, the essence of competition in the grain market is a matter of price, with competition limited primarily to judgments and risks taken in terms of "basis" levels. Basis trading is a highly skilled activity, dependent on relationships between markets, especially with a future basing point such as Chicago and other locations. The basis trader's success depends on his ability to anticipate the relationship within established price parameters to attract the proper share of supplies to each market.

We are convinced, as international grain merchants, that the best service comes from broad exposure to markets and market influences. Thus it is that Continental has become a full service organization. As such, we are committed to the role of a consistently reliable supplier of grain and related products at competitive prices to buyers throughout the world. As an international merchant, we have an obligation to meet buyers' needs at lowest cost, while fulfilling an obligation to suppliers to provide them maximum returns.

It is my belief that international grain merchandisers have a role to perform in matching supplies to demand at the lowest possible cost while adding place and time utility to these stocks.

Continental presently accounts for about 20 percent of all U.S. grain exports.

An analysis of the company's activities in one of the futures markets during 1975 illustrates the broad participation of many interest groups. Continental Grain Company during that year accounted for less than 2 percent of the total wheat futures contracts bought and sold on the Chicago Board of Trade. . . less than 2 percent of the soybean

contracts. . .about 3 percent of the soybean meal contracts and less than 2 percent of the soybean oil contracts.

Continental Grain Company's share of all U.S. off-farm grain storage capacity is about 2 percent of the nearly 6 billion bushel figure.

Those of us involved in the marketing of grain in the United States for both domestic and foreign use refer to our system as an open system; but it is not free in the pure classical laissez faire sense. Government price support programs are, as you know, available for major crops. The Secretary of Agriculture has broad authority in establishing loan levels--broader than most people realize.

As stated, grain producers have a degree of price protection on the low side.

In our system, grain merchandising for domestic utilization or for export cannot be separated from other forces determining price in the marketplace. In turn, producers act on signals from what the marketplace is saying.

The best current example of marketplace signals at work is illustrated by an increase of over 17 percent in soybeans planted this year as compared to last. Favorable soybean prices as signaled by our free price discovery system told producers that supplies in relation to demand were tight. Producers have responded to what they apparently interpreted as an opportunity. Many thousands of people were involved in this decision.

This dynamic catalytic marketing process occurs against a background of national farm policy.

The latest commissioned agricultural policy recommendations were released in July, 1967, by the National Advisory Commission on Food and Fiber. The Commission, you will recall, had been appointed by President Lyndon Johnson. The Commission recommended:

"U.S. farm policy should be directed toward establishing a fully market-oriented agricultural economy as quickly as possible without imposing undue hardship on the agricultural sector.

The present agricultural commodity programs should be modified and administered to encourage the major adjustments which will lead to a market-oriented agriculture. . ."

The Agriculture Act of 1977 again recognizes that recommendation. The legislation goes a bit further in recognizing the producers' freedom to make planting decisions with full awareness of market opportunities and consumer demands and preferences. Not quite the "ideal", but probably as close as we are going to get.

Certainly, a key element of national farm policy is the matter of export subsidies, and the significance of such payments. For the 15-year period up to late 1972, the U.S.D.A. subsidized much of the wheat exported from this country to keep U.S. wheat competitive in world markets.

Payments of subsidies recognized that domestic wheat prices were often times higher than wheat from other origins to importing countries. In actuality, the payments made under the wheat export subsidy program were indirectly received by producers, reflecting the difference between domestic prices and world prices as calculated by U.S.D.A.

Presently, under the new legislation, producers are guaranteed a specific income for their wheat. The two award criteria are: average prices received in the marketplace and a direct deficiency payment. These two elements constitute the target price. But in no event, according to the statute, can deficiency payments be greater than the difference between the established target price and the national average loan rate.

Deliberations of the Congress indicate that the Agriculture Act of 1977 allows a rather wide differential between target price and loan rate for the express purpose of keeping wheat competitive.

While this concept is generally well received, students of foreign trade, however, must recognize one flaw in the policy: in a period when supply is considerably in excess of demand, all other wheat exporting nations know almost exactly what the U.S. export price will be, and the relation of such to the loan rate. This

knowledge enables competitors to offer their wheat slightly below U.S. prices, thereby capturing a greater percentage of the world market.

This would seem to strike at the very foundation of the wheat export subsidy program. That program was designed to keep U.S. wheat competitive and maintain a degree of uncertainty in the world market regarding the level of U.S. wheat export prices.

The growing importance of wheat marketing on this state's farm economy can best be measured in a comparison of cash receipts from farm marketings in the period of 1970-1974 versus 1975. During the 1970-1974 period, wheat represented an average 33.1 percent of all crops marketed, whereas in 1975, wheat was an impressive 47.2 percent of that total. Small wonder then that wheat, along with other farm products, is among the largest single "new money" producers in Montana.

History of global world wheat trade indicates the United States feels more keenly competition from other exporting nations in periods of abundant world supply, and likewise exports a higher percentage of the total in periods of lessened availability in the balance of the world.

For example, over the last four years, the volume of wheat exported by the U.S. has trended downward. Conversely, the volume exported by non-U.S. suppliers continues to increase.

In the year 1973-1974, non-U.S. suppliers exported 31.5 million metric tons and the U.S. 31.1. In the 12 months 1976-1977, non-U.S. suppliers exported 35.6 million metric tons and the U.S. 25.4.

This situation is less dramatic as regards feed grains. Almost without exception, however, the U.S. had been called upon to supply most of the unusual shortfalls in the world.

Much has been said and written about International Commodity Agreements and specifically, the International Wheat Agreement. The U.S. has been a signatory to some type of International Wheat Agreement since 1949.

Now that there is renewed emphasis on pricing provisions in an I.W.A., it might be helpful to review why, historically--in times of surplus or scarcity--meaningful pricing provisions have been ineffective

in stabilizing world prices.

In 1949, the U.S. for the first time became a signatory to an International Wheat Agreement. The agreement was ratified and subsequently was renegotiated and stayed in effect for 11 years. That agreement can rightly be described as a market sharing treaty. Each member importing country accepted an obligation to buy a specified quantity from the exporting members of the I.W.A. (often referred to as "members of the club").

In 1959, when I was the U.S. negotiator, the format of the I.W.A. was changed. The concept of guaranteed quantities was abandoned because it had proven unduly restrictive, outmoded and unrealistic. A considerable portion of the wheat trade in the world was taking place outside the framework of the I.W.A. You will recall that during this decade of the 50's the United States Congress enacted the Agriculture Trade Development and Assistance Act, otherwise known as Public Law 480. Consequently, much U.S. wheat was moving on concessional terms. The U.S. barter program had become a substantial factor in the world grain trade. Canada and members of the Commonwealth had developed their own "Colombo" plan. One of the Canadian officials at that time described the world wheat grain market as a "numbers racket". There was, unfortunately, too much truth in this statement.

The agreement negotiated in 1959 obligated each importing country to undertake to purchase their wheat requirements from member exporting countries, while prices were within the agreed-to price range, not less than a specified percentage of its total commercial requirements. Exporting countries undertook as a body to supply all the commercial requirements of the importing countries. This agreement stayed in effect until the International Grains Arrangement was negotiated in 1967. The International Grains Arrangement contained provisions for wheat only. The pricing provisions as contained in the 1967 I.G.A. proved to be unworkable.

There has been a great amount of false information published regarding the collapse of the pricing provisions in that treaty. I can tell you in a few minutes why the pricing provisions were doomed to

failure.

Keep in mind that for 18 years prior to 1967 the reference wheat in the agreement was No. 1 Manitoba Wheat in-store Ft. William/Port Arthur. This was the "Cadillac" grade and class of wheat trading in the world (really it was fictional). All other grades and classes of wheats traded in the world as far as the I.W.A. was concerned were priced in relation to the reference wheat. Simply stated, specific prices for other classes were not "fixed" by the terms of the treaty, but were reviewed from time to time by the Prices Review Committee. This approach recognized changing conditions in both exporting and importing countries, as well as shifting crop conditions, thus allowing greater flexibility.

The reference wheat as contained in the 1967 I.G.A. became U.S. Hard Red Winter No. 2 (ordinary) f.o.b. Gulf ports. Differentials for 14 specified wheats were agreed to and scheduled in the body of the Agreement. The obvious goal of the negotiators was to insure greater market stability through maximum price discipline. It must be recognized in all fairness to the negotiators at that time, that when the I.G.A. came into being in mid-1968 the world wheat situation had changed dramatically. Wheat was in surplus in many countries.

Very little U.S. wheat traded at the level prescribed in the I.G.A. Analysis indicates that the reference wheat--and really all other wheats being exported from the Gulf or from the U.S. for that matter--were unduly frozen into the agreed-to price pattern. Wheats of other origins were not subject to the same predictability as the reference wheat where the price was fixed.

Early in 1969, it was quite apparent--particularly to the U.S.--that the pricing provision was completely unworkable. The Prices Review Committee was requested to meet to review the changed supply/demand situation, and to attempt a renegotiation of the pricing provision. The task was not accomplished because the members of the Prices Review Committee were faced with an impossible assignment. Some members refused to meet. The situation prevailing at that time is best conveyed in a speech delivered by the Australian Minister for Primary Industry in July, 1969. Listen, if you will, to this brief

but telling segment:

"Just what is the situation now with the International Grains Agreement? I'm afraid that much of the comment we have heard in the last week or two has not been very well informed, and I can't escape the conclusion that some of it has been little short of malicious. All farmers are aware that the world wheat trade since 1949 has been regulated by a series of agreements in the interests of orderly marketing and stability of prices. The present I.G.A. was negotiated in the context of the GATT Kennedy Round Talks, and in fact it was the only substantial settlement on agricultural trade that was achieved. The I.G.A. consists of two conventions covering commercial trade in wheat and food aid, which I mentioned earlier. This new and very complex agreement came into force on the 1st of July, 1968. Its membership is 10 exporters and 34 importers.

For the first time, minimum prices were established under the agreement for 14 major wheats. It was always expected that there would be teething troubles in making the pricing provisions work to everyone's satisfaction. But these initial problems, which were expected, have been greatly aggravated by record or near-record crops in most wheat-producing countries, both importers and exporters alike. The result has been, of course, that there is far too much wheat around the world for the available markets. In this situation, there will always be many eager and anxious sellers resorting to all kinds of devices to increase their sales. They will drop their prices below agreed minimums; they will offer extended credit terms; and they will tie their food aid commitments to commercial purchases.

What has happened is that France has increased her sales at the expense of Canada and the United States. At the same time, the Australian Wheat Board has taken full advantage of its favorable position under the I.G.A. and has been very vigorous and successful in its marketing. As a result--and there is no doubt about this--Australia has gained more than her traditional share of the world market. While this has been happening, countries who are not parties to the I.G.A.--particularly the Soviet Union and East European countries--have been expanding their sales at prices out of line with I.G.A. prices. I repeat what I have said on other occasions--that Australia has not breached the I.G.A. We have taken full advantage of our position under the terms of the I.G.A., but we have not breached it."

Note that Australia maintained it did not breach the Agreement, but only capitalized on a favorable position attained during trade negotiations. The comments of the Minister, in my opinion, were true and highly accurate. His view of what was happening in the world is a synopsis of what traditionally takes place when specific and detailed pricing provisions are contained in an international commodity agreement.

I have shared views regarding economic or pricing provisions in International Commodity Agreements because false hopes about producer benefits in such price fixing understandings often fail to materialize. As an example, the present Executive Secretary of the International Wheat Council in London has stated on several occasions that:

"If an International Commodity Agreement is to be successful, it must not operate so as to appear disadvantageous to any of the parties in it."

Today it is fairly common to hear that. . . "the petroleum producing countries can fix their price; why don't wheat exporting nations do the same?"

In considering such a comparison, you as individual producers must remember that wheat or grain production cannot be turned off at the wellhead and stored in the ground free of charge. Once you produce the wheat either you or someone else--perhaps the U.S. government--must be responsible for the cost of storage. The same is true of every other producer and producing nation in the world. That in itself puts wheat and other grains into an entirely different category than petroleum.

To my knowledge, no responsible person has ever claimed that a wheat agreement expands the world market. Agreements are not intended for that purpose. They are intended to share that market which is already in existence.

Though my remarks today have ranged far afield, I have tried to share with you the role and responsibilities of a company merchandising grain in the world market.

I could not omit, however, comment on other aspects of grain marketing which affect producers directly, such as the questionable value of governments becoming involved in price fixing arrangements.

If I have appeared negative on some subjects, it is because

I recognize the changing times in which we live. For if I can be sure of anything, I am confident your experiences today differ from those of a year ago and those experiences may or may not bear some resemblance to the situation we may all find ourselves in one or two years from now.

If, as they say, experience is an arch to build upon, let's look to the future with a caution tempered by truth.

Remember, experience is really what happens to you in the long run. . .the truth that finally overtakes you.

RESPONSE TO ADDRESSES BY
ALEX McCALLA AND CLARENCE PALMBY

By

Bob Purdy, Farmer
Gildford, Montana

I am really pleased to see so many people here. This is something that we did a lot of talking about. There is a lot of concern about this problem and we felt that it was something that would be of interest. I'm glad that our idea was accepted.

At this time I would like to introduce the reactor panel. Each panel member will be given a maximum of six minutes to comment, elaborate, criticize and/or question the papers presented earlier this morning.

To conserve time I will simply name the panelists before you. Their organizational affiliations are shown in your programs.

Frank Kraft

Yvonne Snider

Mike Bergland

Joyce Robinson

George Skarda

Gary Aklestad

RESPONSE TO ADDRESSES BY
ALEX McCALLA AND CLARENCE PALMBY

By

Frank Kraft, Director
Bargaining Division, Pacific Northwest
NFO, Great Falls, Montana

Thank you, Bob. It gives me great pleasure to observe the group and the numbers we have here today.

Our gathering gives us a chance to communicate. I think that communication is one of the most important parts of marketing. And it has been one of the greatest problems that one of the important major market power forces--the United States producer himself--has had.

It kind of reminds me of a story about communications. There was this young fellow, quite intelligent, down in hillbilly country. And his father was a community leader on a church board and he was looking forward to his son taking over. The son had problems. He was not interested in becoming educated at that time and qualifying himself as many of us have done. His father was kind of at the point where he was about to give up. All of a sudden his son decided it was time to settle down. He got married and he thought he should get involved in the serious things in life. So, when the father found this out, he said, "Well, son, the first thing that we're going to do is get you involved in community affairs and church affairs. "When we go to a church meeting," he said, "I'm going to have you take my place on the board." Now the son thought, well that's really fine. So they got that accomplished. The very first meeting that was held when he was on the board involved a review of the financial situation of this church. Until that time, being real poor, the church had had no lighting (had not much of anything really, but lighting was a real serious problem). They discovered that finances looked pretty good, so someone said, "Well, I make a motion that the first thing we do with some of the surplus funds is to buy some chandeliers." This young fellow pops up and says, "I'm against it. I'm against it. I'm against it for three reasons. Number 1, we can't afford that much. Number 2, no one here knows anything about it. And number 3

what we really need around here is more light."

Well, I wasted part of my time. I'm sorry about that.

To get down to serious things, my comments are based on my experiences of the past ten years. I have been making a very extensive study on my own part, trying to teach fellow farmers about what could be some of our problems in marketing. I would say the determination of Montana wheat prices seemingly becomes a very complex situation in light of the magnitude of wheat marketing world-wide and the number of companies, countries, and individuals involved within the total system. I want to point out that I'm playing the three major market power forces: companies, countries, and individuals. The individual producers have not really been touched on by the two gentlemen this morning.

We're aware that the four major multi-nationals (I use the number four; I hear six and I hear five, but I'm going to use four), since about the end of World War II have become established in almost every exporting and importing country in the world. We can say that this is the result of good, successful, business expertise and the far-sightedness of these companies in the world market plus the courage to take the risk of that type of expansion. In short, due to their modernization, so to speak, there's no question that their market power far surpasses any other in wheat marketing, in the present system.

There are those that say these companies are in a position where the temptation to collude is very great. Through collusion they could manipulate prices to enhance their profits. Some say these four should therefore be broken into smaller entities. Why are these people saying this? To answer this question, I'd look at the daily functions as I've learned them of the world-wide wheat marketing system. The two major focal points within this system where daily prices are determined are the Rotterdam CIF market in Europe and the Chicago Board of Trade along with Minneapolis and Kansas City Grain Exchanges in the United States. These were pretty well verified this morning. The overwhelming majority, as I see it, of the daily export price information on which these focal points base their prices must come from these companies. Therefore, I must agree that the opportunity of the four major multi-nationals to collude is very real; however, proper surveillance can always be maintained

to prevent such a thing providing, of course, that the proper desire for this surveillance is continuous.

As far as dissolution of these companies, in my opinion, that is highly unlikely and I question whether it would be possible legally. So what I am really saying and why I said this much, is that they will be one of the major market power forces that we will always be looking at.

The second major market power influence, in my opinion, are the exporting nations. As it was pointed out, the goals or how they act within the market differ. One must consider the objective of each one of them. There are basically two objectives that I would like to refer to and consider. Number 1 would be the monopoly sales agency within the countries, was talked about this morning, such as those in Canada and Australia, that seek to maximize producer returns. Number 2, as in the United States, is the system where the objective is to maximize foreign exchange earnings. These different objectives result in different market behavior.

The third major market power influence is the producer within the exporting nation. One must consider what causes his supply to enter that market, or in other words, the producer's behavior at the market place. In the case of monopoly sales agency or a national wheat board, the producer would be allocated a periodic quota as the market year progresses based on the commitments that are necessary to fill demand. Now as I see it in this situation the producer will give up his freedom to do as he chooses at the market place. And I also note the producer, therefore, does not require much marketing knowledge. The agency would have this responsibility. It is indeed a responsibility at the market place to have some market knowledge.

In case of Number 2, as in the United States, the producer has complete freedom to do as he chooses at the market place. Therefore the entire responsibility lies with him as to when he enters the market and with how much. One can readily see and realize the ramifications of marketing habits of producers in this nation, that supplies the percentage of wheat in the world export market that it does, when their judgment is based on desires and market ignorance. I think that is something that we have to look at, folks. These habits of freedom that we have been talking about without discipline of any kind, will

ultimately destroy us since we, at this point, are market-takers and not market-makers. Our market power is absolutely nil. There is an imbalance. Without equal marketing power there is no way that you can obtain fair and equitable prices. Without discipline, there is no way you can develop market power. Ultimately, the buyer will set the price for the producer's wheat. And whenever the buyer of anything, any commodity or any product, sets the price for a long enough period it is inevitable that the seller will be forced out of business.

The conclusion then, in my opinion must be, that we the producers must take steps to become knowledgeable in marketing and able to communicate with our producing neighbors in order to survive. In addition, the government, our government, must not pursue policies that would undermine the producers' market power.

RESPONSE TO ADDRESSES BY
ALEX McCALLA AND CLARENCE PALMBY

By

Yvonne Snider
American Assoc. of University Women
Lewistown, Montana

I am not an agricultural economist and I am not a grain producer with expertise in that area, so my responses may seem rather simplistic as compared to the complexity of Dr. McCalla's matrix. But my concern is the price that our Montana producers are receiving. It's quite obvious that there is still profit being made in the world grain trade, but it is not being shared with the producers.

Before I comment on what our speakers have said, I would like to comment on some areas of concern to producers that they did not mention; practices that are considered automatic to the grain marketing system but which in my opinion constitute a rip-off to the producer. I'm referring to such concerns as grain storage rates, freight rates and practices, dockage and blending.

Dockage refers to the practice of deducting from the total volume of grain for a certain amount of dirt, cracked wheat or weed seed. The contents of the dockage, which is often high in protein, can then be used to make rabbit feed, chicken feed or cattle cake. Certainly a profit is received for the sale of this docked material but the farmer receives nothing. A certain percent of foreign material is allowed in the grain when it arrives at its destination, so it may arrive dirtier than it was when it left the farm. If dirt is allowed in Portland, Galveston or Duluth, there is no reason to deduct for it at the country elevators.

Blending of the protein content is another method that grain companies use to make a profit with no benefit going to the producers. By adding a percentage of high protein wheat to a large volume of ordinary wheat the company can then sell the grain at a premium.

In regard to the futures, the charge is often made that producers mistrust the futures market only because they don't understand it or

have not learned to use it to hedge to their benefit. I can certainly understand the value of hedging on a widely fluctuating market in which you could guarantee or "lock in" a profit. But on a market that is already far below the farmer's cost of production it would seem illogical to me for a farmer to hedge his grain, in other words, to pay for the privilege of guaranteeing himself a loss.

Mr. Palmby mentioned a variety of marketing options that the farmer has. Granted there are several. He can sell on the futures market, at a loss; sell on a forward contract, at a loss; sell on the cash market, at a loss; or take a government loan, at a loss. That is not my idea of variety.

In the September 21 Washington Post, there was a picture of Cargill's new \$28 million grain handling complex at Duluth. I mention this to illustrate the profitability of the grain trade to all but the producers.

Mr. Palmby referred to the questionable value of government becoming involved in price fixing arrangements in the form of an international wheat agreement. In answer to this I would like to read some remarks made by Senator John Melcher of Montana.

"In view of Canadian complaints that the United States is unnecessarily holding world wheat prices below cost of production, while worshipping and speculating at the altar of the futures market in Chicago and Kansas City, it is clear that the Canadians would respect and cooperate in an effort to get wheat producers a reasonable price."

Senator Melcher goes on to say that importing countries would also welcome renegotiation of an International Wheat Agreement with minimum and maximum prices at fair levels which would assure them stability of supplies and prices. He stated that our international grain traders were accusing the Canadians and Australians of cutting our price a few pennies per bushel to get export orders, making us a residual supplier. Senator Melcher then said, *"I question that, but even if it is true, I would far prefer to be a residual supplier on a \$4 market than a \$2 market. Our international grain firms must be required to serve producer's legitimate interest or lose their license to do business in this country."*

I contend that neither the interest of the producers nor the consumers are being served by the present marketing system. With

bread costing more today than it did when wheat was \$5 a bushel, it is apparent that the methods being used to price Montana wheat are not satisfactory. I hope that solutions will soon be found which will put farmers and ranchers in the position of being price-makers rather than price-takers.

RESPONSE TO ADDRESSES BY
ALEX McCALLA AND CLARENCE PALMBY

By

Mike Bergland, General Manager
GTA Marketing Office
Portland, Oregon

One thing I will say about ladies is, Yvonne, you get right to the point. Very well done.

Now, I'm not going to beat around the bush either. Alex, I'd just like to say that we're not going to leave you out of this thing, but I've learned over the past years that if the doctor tells me I've got a cold or the flu and tells me what to take for it, I'm going to take his advice. I can't argue with the very interesting documents that you had to give us. They are all factual, usable, and the truth, so I'm going to leave it go at that.

Clarence, you and I have something in common; we're both from Southern Minnesota. It's time I've had the privilege to meet you personally and listen to you. I've followed you and your speeches and experiences through the years and you are a very well regarded man.

I'd like to ask just a few questions. I don't expect you to answer them right away but let's all think about them and maybe later on we'll have time for discussion.

How many sales that Continental makes or Cargill or Dreyfus or Bunge or I don't care - the major exporters I guess - are from "any origin" sales? We learn that Brazil has bought 200 tons of wheat from the U.S.. Boy, we all click our heels when we're going to get a piece of that business. What we are not aware of is that the U.S. exporter has made it on a contingency of "any origin" sales. So if the price is cheaper at the time of delivery in Australia or France or Canada, they can buy from the Wheat Board of any of those countries. So I think it's probably mis-leading when we say we have sales that are made in the U.S. filled with wheat from other countries.

When an exporter sells a big quantity of grain such as six million or higher, how many days do you have to cover yourself, position-wise, whether it's futures in the U.S., or cotton, or oil, or gold in other

countries, or any other means of covering your open, naked position? How many days do you have before the sale is made public?

Another thing, you mentioned that Continental, as far as futures contracts, only has two percent of the contracts traded in Chicago, Kansas City, or Minneapolis. Two percent of them is the volume that Continental traded. What I think we would like to know is what percent or what volume do you trade on a daily basis? When Continental comes in the market to buy futures, they do it in a big way. They'll come in and buy a million, two million, three million bushels in one day. Not necessarily one market, they may push Minneapolis up or Kansas City up, which are both very thin markets. We try to hedge in those markets every day on a given basis with small quantities. I don't mean to talk it small, but in 100,000 bushel or 500,000 bushel lots you have a hard time getting that done. So in essence, I feel, and its only my opinion, that big companies can move the futures market.

When trade teams come over to the U.S. from Russia do they come to Washington and meet with a group of exporters in one room or do they meet individually? And if they do make a big purchase does the U.S. government say, "okay, let's spread this out between three exporters or four exporters, so we all have a piece of the business." I don't know if thats good or bad because they all get on the same side of the market that way and maybe I'm all wrong there, I don't know, Clarence.

To end this thing up I would like to make some comments to the Montana farmer. I think the Montana farmer has gotten more for his grain than any other farmer in a given state. And I mean it on a plus for you people because you have thought ahead. You have built farm storages so you can keep it at home for the cheaper cost to you. To bring it to a terminal, it was mentioned here earlier, would result in storage charges. They can't afford to build a high priced elevator and not charge anything for storage. But you people have built storage in the last period of years, not just recently, but in the last 15 or 20 years. You've always been able to hand on to your wheat. You haven't had to sell it like Oklahoma, Texas, or Kansas when harvest came.

A support price has to be paid, I don't know what it should be. The taxpayer can only afford so much. On the other hand you can't afford to raise it if it doesn't pay any money. So I guess if you have some storage like you do, you can hold a year's wheat or two year's for when the market does come back. The domestic market around here can not take the wheat the U.S. raises. So we have to wait until Russia has a crop failure. Until this time, you can keep it on the farm, take loans on it, or go to the banker and say, "Look I've got cash grain, can I borrow some money for my year's operation?" Just like you're doing.

I think you're doing a fantastic job of merchandizing your grain here and you've taught the other states how to do it. I know Kansas, Texas and Oklahoma said many times when the Russians came in, "We sold our wheat for two bucks. By the time the harvest was over in Montana the price of wheat was already up a buck a bushel." So they are starting to build farm storages.

Thank you for inviting me to Montana. I enjoy your state.

RESPONSE TO ADDRESSES BY
ALEX McCALLA AND CLARENCE PALMBY

By

Gary C. Aklestad, Farmer
Shelby, Montana

The grain sale to Russia started a dramatic fluctuation in grain prices. This was brought on by a more friendly trade relationship between our countries plus economic and climatic conditions around the world. Then our Sec. of Agriculture felt we could seed fence to fence and market it all at a fair price. What he did not anticipate was the fact that a labor leader would propagandize that bread would be \$1.00 a loaf if wheat were allowed to increase in price when in fact his main objective was to load more American ships at higher wages. When this type of pressure was put on the President of the U.S., he knuckled under to the pressure and placed an embargo on grain.

Added to the problem, farmers kept producing and disregarding what the market could absorb. It is also easier for large grain companies that are multinational in scope to manipulate a market which has a surplus. Plus the fact there is very little incentive to increase price if you are working on a fixed merchandising fee. Also, there is less capital outlay in purchasing grain at lower prices which, I think, would be advantageous to the companies. But let's remember, we let them take advantage of us. We do have the grain first.

Proposed solution by government. Cut production and have a support and target price arrangement. The problem with such a program is it has a tendency to put a ceiling on prices rather than a floor. Producers usually idle their poor land and fertilize their best. Plus it is economically disastrous for farmers to have production controls in areas that have such climatic and production variances from year to year. Also, there may be more acres planted to wheat prior to and during the first phase of the program so as to establish wheat base acres. The only reason that I can justify having a government program at this time is since they were instrumental in getting us into

this situation, it could give us some time to work out of the surplus situation and become more market oriented. Also, if farms are going to be the only segment of the economy shouldering the three-year wheat bank arrangement, they should be compensated more for it.

My solution. As producers we need to develop production discipline and not supply the market more than it demands but demand a price for the production we supply. This does not necessarily mean cutting production. It may mean storing crops, producing alternative crops and marketing them when the market is right, not when it is most convenient for us. At that point get government out of domestic markets and production areas and pursue expanded export markets which can also help the balance of payment. As producers we are plagued with production statistics that are history from independant and bureaucratic reporting services which do more harm than good. To producers these figures are a little like shutting the granary door after the bin has been filled.

Now I am probably more opposed to government bureaus and boards than most of you. My proposal would be a U.S. producer's board. It would consist of one member from each of the major grain producing states. These members would be voted on by producers. They could be paid from check-off money and on a price of wheat relationship to create more incentive to benefit producers. Their primary function would be to evaluate the supply-demand relationship for a commodity before it was planted. This should have county, state, national, and international scope. After compiling all the facts and figures they should be able to determine approximate bushels that could be sold in that marketing year and still receive a fair price. This board would be able to do this for all grains which would help eliminate overproducing one product in any given year. Plus they would be able to monitor grain movement week to week, to alert producers when the market is getting saturated. They should have access to all boards of trade informtion.

Conclusion. The solution to most of our problems lies with producers. As individuals we have to decide whether to be part of the solution or part of the problem. It is up to us.

RESPONSE TO ADDRESSES BY
ALEX McCALLA AND CLARENCE PALMBY

By

George Skarda, Farmer & Director
Western Wheat Associates
Denton, Montana

All of us can understand the effects of domestic surpluses and the additional effect when these surpluses are world wide-lower grain prices! The theory of supply and demand strikes with fury and quite suddenly. It takes much longer to reach equilibrium or to reverse.

We can also understand the need for foreign marketing organizations. We grain producers in Montana have none of our own cooperatives. So until we do have our own organization we will have to make do with what we have. There is a question as to whether the multitude of grain brokers who only buy and sell to each other or to the exporting companies are really necessary or even desirable.

These costs are comparatively minor to the entity that has the most to do with pricing of our commodities. Reference is made here to the administrations of our Government and the political pressures from non-agricultural groups that prompt totally unnecessary embargos and the "jawboning" of Congress with threats of veto unless farm legislation is designed in a specific manner to perpetuate the fallacy that food should be cheap and laying the economic burden on the producer with less than full cost of production returns.

Agriculture is America's greatest asset, a constantly renewable resource that has been grossly mismanaged by Administrations. It is the only reason our balance of trade deficit is not greater than it is and would be much less if agriculture were positively utilized to enrich the economy of our country.

Prices are not determined by Montana growers or any other grower in any other State. Perhaps we should examine our own naivete in believing in promises that are not kept and the fact that we do not have the political clout to take action to adequate pricing.

RESPONSE TO ADDRESSES BY
ALEX McCALLA AND CLARENCE PALMBY

By

Joyce Robinson

Women Involved in Farm Economics (WIFE)

Choteau, Montana

Mr. Chairman, fellow farmers and ranchers. I'm reminded of something that I was told by the Governor of Montana when I was in Washington, D.C. and I'll quote him and you'll forgive this remark, I hope. He said, "Give them hell, in a nice way."

Speaking for WIFE, WIFE believes that as long as we producers never set our own prices, as long as the State Department makes our sales for us and uses our products as a diplomatic tool, then we have every right to ask our government for subsidies at the cost of production as the politicians have promised. However, WIFE acknowledges that government support is not the final answer to our price problem. Therefore, we work toward profitable prices for all farm commodities in the marketplace.

Turning to the two papers presented, they were excellent within a very limited criteria. I had personally hoped for more detailed accounting of the actual movements of Montana grain rather than the general economic aspects which most of us understand. If I got one single thing from the papers, it was simply this: there are too many people, too many entities playing around with our product.

The excellent paper regarding international grain companies emphasized that their aim was to secure their product at the lowest possible cost. And they are certainly telling the truth. Consider foreign competition. Foreign competition comes into our market at a whim yet we and Canada are the steady long term world suppliers. We should have the right to set the world price for wheat.

Consider the international grain agreement. What's going on in London right now? How many farmers are in London, England today to speak for us, for the producers? I'll bet there isn't a single one.

Now, look at the futures market. We'll not talk about hedgers; we won't talk about them because I don't know too much about them. I'd like to but my banker doesn't agree. But God bless him. But I know quite a lot about the speculators and I feel they lock us into a low price. If you take a speculator, operating on a 50¢ margin, does he care where that 50¢ occurs? Between a \$1.50 and \$2.00 or between \$4.50 and \$5.00? No, I don't believe he does.

Then we have another problem, politicians. Now, I feel rather sorry for them because they get some very, very bad information from a group of fellows whom we have threatened to eat. However, they are not all bad. And they have some dandies out of Montana State College. And I wish that they were setting in Howard Hjort's position in the U.S.D.A..

Then we have the takeover of the entire U.S.D.A. by the State Department, the Treasury Department, and the Office of Management and Budget. Butz gave it all away to Kissinger and the trend continues to this very day.

So, here we are. The food producers of this nation. Giving this nation the highest quality food at the cheapest possible price of any nation in this world. And what do we get? We can't even make cost of production. And I wonder why. There are some things that we can and must do. We must do them immediately. If we don't, just as all of our young people are already out of the cattle business, so will these grain farmers, they're going to be going down the tube too. How long can you survive at half the actual cost of production? There are some things that we must seriously consider.

One, we must consider collective bargaining. None of us like the idea, we're too independent. But I believe that we can find a method of bargaining collectively without losing our independence. I believe that while we are working on some form of bargaining collectively, we must find alternate uses for our grain. I believe that gasohol and the manufacture of ethyl-alcohol is probably our best chance. And I do look forward to the 21st century as being the century of alcohol as our prime source of fuel.

That concludes my remarks except that I would like to leave you with this thought: You may break our farm but you'll never break our spirit.

RESPONSE TO ADDRESSES BY
ALEX MCCALLA AND CLARENCE PALMBY

By

Bob Purdy, Farmer
Gildford, Montana

I intended to try to bring a resume' of all the things we discussed here this morning but I think instead I'll just make a couple of comments. We are running very close to the noon hour.

The point that hits me when I think of Montana wheat and the marketplace that determines the price for it, is that the marketplace gives power, of varying degrees, to every participant but the American producer. Dr. McCalla pointed out that everyone in the market has a marketing strategy. Their actions are based on their particular understanding of the market and the other participants in it. He outlined and emphasized the strategy of many of those participant importers as well as exporters. Among those are the importers whose prime objective is for the lowest possible prices. On the other side, are the monopoly agents of producer nations such as Canada and Australia who are interested in the highest practical prices for their product. While the U.S. government, because of balance of trade problems, wants large export revenue they do not take any active part in improving producer prices. The U.S., with no grain board with similar responsibilities to those of the other two major producing nations, has instead a group of private companies carrying the responsibility of marketing its produce.

Mr. Palmby has explained that his company is responsible, in addition to the American farmer, to the buyer and feels an obligation to meet the buyer's needs at the lowest cost. Of course, as Dr. McCalla also points out, the private traders such as the multinational grain companies would, we assume, seek to maximize short run profits. Now against this background, Mr. Kraft has pointed out, and I feel that this really needs emphasis and widespread discussions, that all of those participants in the marketplace have goals and the discipline to pursue those goals with one every notable

exception: The American grain producer. He alone puts his factor, which is his abundant harvest, in the marketplace with little or no discipline or order. In a large part, his grain goes into the market unorganized and with as many marketing strategies and reasons for movement as there are producers. How can the major supplier of grain for export, the American farmer, hope to achieve his goal which should be a profit and a return on his investment capital, unless he corrects this lack of discipline and makes his power work for him in a concerted fashion?

I want to personally thank all of the members of the panel and everyone who has been here for this morning's session. We are sorry that because of circumstances we weren't able to make good use of the questions. We will hope to collect those and possibly we can use some later on today.

COMMENTS, QUESTIONS AND ANSWERS

For

THE WORLD MARKET FOR WHEAT

By

Alex McCalla

And

THE ROLE OF MULTI-NATIONAL GRAIN FIRMS

By

Clarence Palmby

Comment By
Alex McCalla

I really don't have any general comments to make. I survived rather cleanly from the panel I thought; perhaps I missed some slings and arrows when I should have recognized them.

My only comment at this point, is that in identifying the participants in the market, as a number of people on the panel indicated, that I did not identify producers as a market power source. Conceptually they ought to be a market power source. If one were to be looking at a conceptual framework of who are the major participants in a market, clearly producers by their decision when to sell and for how much should be a potential influence in terms of market power expression in a market. I suspect my omission of that is, in part, because I didn't think of it quite in those terms which I readily admit. But also because I think that by and large what the members of the panel were saying this morning is, that under the current mechanisms, the opportunity for the exercise of collective power by producers in an open market system is most difficult.

I think also that someone on the panel this morning said very clearly that under a board system such as the Canadian Wheat Board, the opportunity for the exercise of power at all by producers is absent because of the fact that delivery quotas and delivery dates and prices are clearly established by the central marketing agency, the Board. So, I left out the producers, I guess, because it seems to me that under a central public board system the producers by definition have yielded any market power they might have to that board and that under a system such as the United States, I guess there isn't that much expression of power under the current arrangements that we have.

Question and Answer Session

Question: If we have too much wheat, why is it that we can always sell wheat? Why don't the grain companies quit buying wheat completely?

McCalla: As an economist, you always have to ask the question when dealing with too much too little in a market situation as to what you really mean by that. It seems to me the statement that said, "we have too much wheat," means we have too much wheat available on the market to maintain a price that we want. On the other hand, given a market clearing mechanism, presumably, price will drop sufficiently to expand sales at lower prices. I think the issue is, as I hear it this morning, is not whether or not it can be sold. Because there is considerable elasticity, to use an economic term, and there is considerable responsiveness in the demand for wheat particularly at lower prices when it becomes competitive as a feed grain and there are a number of participants in international markets who are prepared to buy more at lower prices; so I think that you can't really talk in absolute terms about too much wheat. The real issue is whether or not the supplies available are sufficiently large that they depress prices on the market below ones which using varying kinds of criteria that one might consider to be acceptable as a producer or as a handler.

And the question, "why don't grain companies quit buying wheat completely?" I suppose they would, if they didn't have any place to sell it but if they can sell it for \$1.50 and reasonably so, I think they would continue to sell it. The role of the grain company is the merchandiser and I think as long as there are markets available at varying prices they would continue to buy wheat. So, it's not a question of too much or too little, it's a question of how much and what influence does that have on price.

Question: With the U.S. and Canada being the major exporters of wheat, why does Canada not wish to embark upon a pricing agreement? Can they (Canada) raise wheat for present day prices?

McCalla: Well, I don't pretend to be able to read the mind of the Canadian government. That's probably as difficult as reading the mind of the U.S. government. More difficult when you're not living in Canada anymore. My impression is, that within the Canadian environment, there is a great difference of opinion among varying elements of the grain industry as to whether or not international arrangements are valid approaches; are desirable approaches, from the Canadian point of view.

I think Mr. Lang, who is the Minister in charge of the Canadian Wheat Board has expressed a willingness, at least, to discuss the possibility of some sort of collective pricing agreement with the U.S. and other exporters. And the reason for that desire at the moment is, I think, relatively clear. The Canadian Wheat Board is out on a basis Fort William-Fort Arthur price of \$2.75 a bushel for the 1977-78 crop and it's clear at the moment they are not selling it for that, for whatever the amounts that they are selling. So, given that, that's a guaranteed price at the time of sale, the Board or the Treasury (Canadian) stands to lose a fair amount of money this year if prices from international markets do not go back up. Therefore, it's in the self-interest of the preservation of the Canadian Treasury to have higher prices in the international market. I suspect that may explain part of the reason why there is at least, on Mr. Lang's behalf, a willingness to discuss the issue.

On the other hand I think there are a lot of people who feel that if you're going to embark on a pricing agreement, it is going to have to involve more than the two major exporters. We have a great deal of experience in commodity arrangements, the most obvious one being the experience in 1950's with coffee, where if some producers, major producers of a commodity, get together and try to restrain supplies going on the market to

raise price, it gives substantial inducement to people not participating in that arrangement, to expand their exports. That's exactly what happened in coffee. It established a coffee industry in Africa where it had not been very strong before, and this occurred during an attempt by a subset of all sellers of the commodity to raise the prices through a commodity agreement. So I suspect that the Canadian position might be, that unless it's a complete cartel like OPEC, that they are not interested in the pricing arrangement in a bilateral sense.

Can they raise wheat at the present day prices? I suspect their answer would be no. They suffer the same kinds of problems that you do with probably one major difference and that is that the Canadian land prices have not experienced the price inflation that U.S. land prices have over the last seven or eight years, depending on how you compute the cost of land as an element of cost of production. This would suggest to me probably that the Canadian cost of production on the land basis is low and similarly Canadian growers tend to use less purchased inputs of fertilizer and pesticides, etc. than do American producers with comparable or lower yield. But I suspect that it may be arguable that there is some difference in cost of production but I think if this was a meeting of farmers in Southern Alberta or Saskatchewan that their answer would be, "no, we can't survive on \$2.75 wheat either."

Comment By
Clarence Palmby

There are two or three items that I feel I would very much wish to respond to, so there would be better understanding, and then two or three specific questions that Mike Bergland asked. I have a great deal of respect for Mr. Bergland's organization and I would like to respond to those questions.

First, I want to clarify again, as I did in my comments, that a grain company, a processing company, is no different than a farmer, I invest \$25 million, should we invest \$30 million in a new or improved a grain company or processor is forced to make a decision. Should we invest 25 million, should we invest 30 million in a new or improved export facility or related equipment? Be it leasing hopper cars or buying barges? I want to assure everyone in this room that the decision in making that investment is not based upon short term return. More likely than not, it's with full recognition that in a year or two or three the investment will lose money. Over the long period of time, we hope it might make some money.

Mr. Bergland asked the question: How many sales of "any origin" does a company like Continental make? Why do we often report on the export sales reporting form that 5 million bushels of corn was sold and that the exporter has exercised the option of multiple origin? Meaning that the exporter has the option to originate part of that corn in some other country. The best explanation of this, is that many multiple origin sales are made because of protection. We may be protecting ourselves against a work stoppage in this country, we may be protecting ourselves against a tie-up in transportation system as we had last winter during the severe winter, so that if it's possible to originate a cargo from some place else other than the U.S. we are in a position to do it and to service that customer and to protect ourselves from excessive loss. That really is the best explanation of multiple origin contract.

In case of big sales, and I believe Mr. Bergland used the figure of 6-8 million bushels, maybe it was bigger, how many days does an exporter or a company like Continental have to cover? Again, a sale of over a

hundred thousand tons made by Continental must be reported to the U.S.D.A. and the export reporting sales report within 24 hours. Now how long does the company have to cover? They may have a feeling that there was going to be more business from several countries or several destinations. We may have acquired some inventory against the possibility of that sale. That's part of the risk. We, in all likely, would have hedged that sale through the use of futures. So the answer to the question is, "there is no fixed period of time." It's part of risk management and management must decide the extent of the risk which they wish to take in either remaining open, or partially covered or entering the futures market in a rather rapid way, or accumulating all the cash that they could in the short period of time.

In answer to the question, "Why some days does a company like Continental participate very heavily in the futures market and then on other days, very little". It may have been the result of pending business. It may have been the result of covering a transaction with the expectation later to convert that futures contract by buying cash grain. And it is an up-and-down thing, depending on the amount of business that the company does or foresees doing.

Another question, "When trade teams like from the U.S.S.R. come to the United States, do they meet individually or together with exporters?". First, let me make it real clear: they do not meet together with company officials. There is an agency known as the Federal Trade Commission of the United States. I am even afraid to look a competitor in the eye when I see him on the sidewalk. I'm afraid that somebody will say, "those two birds winked at one another". But, we are under strict rules as to how one company deals with another and to be in a position where we can never be accused of any collusion. It's up to that visiting trade team, if such comes to the United States, as to who it might want to meet with. Do the members want to talk about offers? Do they just want to continue a relationship? For instance I read, next week that a group from the Soviet Union is coming to the United States to meet with U.S.D.A. officials as provided for in the long time commercial agreement between the U.S. and the Soviet Union. The agreement calls for consultation every six

months. That meeting, everybody knows that reads the papers, is scheduled to take place next week.

A comment was made, and I'll complete this with one other comment after this, that a company like Continental can get by and do business cheaper when commodity prices are lower. Do you think it's fun to stand before you and say, "Gee, I wish to have wheat prices on a level that are hurting?" It's so much more fun when I know that you are making more money. If it costs more money to buy wheat, to hedge wheat at \$5.00 a bushel, we have to put it on the price. There's nothing magical about this. That's another cost factor at that time. It matters not with us.

Then I made the comment in my paper that we, as a company, wish to meet buyers requirements at the lowest possible cost. My friends, that's what it's all about. We know we can do this job cheaper, as far as our input is concerned, than any government board in the world. In study after study we verify that point. In the great facilities that companies build, through their use of unit-trains, through their use of efficient barge movements we minimize costs. We are obligated to our customer, your customer overseas, to perform our role of matching supplies with demand at the lowest possible cost. That's the American system.

Finally a word of philosophy. I have been privileged to do many things and I'm very grateful for that. One thing always sticks in my mind. When I returned to government, in January of '69, it was my privilege to have a few minutes with the late General Eisenhower. He gave me one word of advice. He said, "Son, let me tell you one thing as you again enter government service. I hope that you, never in a speech or a testimony, look back and criticize a group of a previous administration. If you do, you aren't thinking forward to make your contribution." I leave it with you for how you interpret it.

Question and Answer Session

Question: Is it true that wheat export negotiations are done through the State Department?

Palmby: No. No!

Question: What was the 1969 surplus in metric tons?

Palmby: I'm going to give you a broad statement on this because I don't recall. First of all, you have to define surplus which I don't care to do. I literally can't. The carryover as I recall, was somewhere about 40 million metric tons at that time. What was the 1972 shortage in metric tons? There was no shortage. It was a tight supply situation and much expectancy that it might become real tight. The carryover in the United States in 1972 and 1973 at no time, got below at least 50% of our domestic food requirements.

Question: Would you please comment on the interest of a large exporter like Continental to promote the sale of American wheat as such, when the company is international in scope and therefore, could fill commitments in any other countries, depending upon price.

Palmby: Our chief investments are in the United States. We are an American company. The greatest source is the United States.

Question: Do you use flat mark-up price to price your grain export?

Palmby: Yes, at times. Various techniques. That's part of the merchandising techniques. I did cover basis pricing in my paper.

Question: When the wheat leaves the farm it is a good quality. Why then, when this wheat arrives at an overseas destination is it contaminated?

Palmby: The answer is no, it's illegal. The raw materials, namely the grain that is available to us to blend into what the customer wants. I am absolutely flabbergasted in the five and half years that I have been with Continental of the very, very few complaints that we have received, keeping in mind, price, keeping in mind their requirements, keeping in mind, that which is available for us to purchase in this country.

Question: Do you feel that farmers have reason for confidence in international trading firms in light of such things as the violation of U.S. customs concerning weight declarations?

Palmby: Continental pleaded nolo contendere, May 4, 1976 and paid \$10,000 found on each count. A total of \$500,000 in fines. After saying this I have two comments. I, for one minute don't tolerate any disregard for regulations. Second the then prevailing atmosphere caused us to decide to a low profile. Everyone of those counts were on sales that were sold on guaranteed out-turn. The customers never suffered one penny loss. Finally, in the atmosphere prevailing at that time because of a lot of things, Continental did not contest that action.

Question: As far as Continental is concerned in their merchandising practices, how much of your forward sales do you cover in the futures market? I realize that depends on the conditions and so forth, but in an average year?

Palmby: It's a bad question. What's an average year. Yes, I know what you mean. The question was, "What percentage of our export sales do we cover in the futures market?" I can't answer that. The reason I can't answer is that cash grain, at times, is surplus to storage availability. This can best be illustrated by corn because the corn harvest comes off in a very short period of time. There is distressed corn in the country. The seller needs a buyer. In that type of situation, we may buy very heavily in cash and thereby

protect our position and we don't have to worry about futures. On the other hand we may use futures if it's in the season of the year when there is not much cash grain available. Contrary to what many people think the most important factor, in my opinion, in influencing price is the producer. This can best be explained by soybeans. This last year soybeans went up pretty high. Went up over \$10.00/bushel. Who did it? The producers were the single biggest reason and I congratulate them. They were tough sellers. We couldn't get all of the beans we wanted without going up and up with the offer. Who caused that? The producer caused it and I congratulate them on it.

Question: Would you care to comment on the fact that maybe you guys made a little money with the soybean farmers with the price of soybeans going up to \$10.00/bushel? Maybe you guys were a little long too? Through commercial houses?

Palmby: I wish we had been. You know I often times say that with the market information that we're supposed to have, and we do have market information, I think we often times do a lousy job of interpreting what it's going to mean. Sometimes we do fairly well. As you so well know, one of the bigger grain companies had a very bad year this last year. I'm told in their public statements that the biggest single reason was because of their position on the soybeans. While there may be opportunities to make money, there is equal opportunity to lose money. A company like Continental, plays it very close to the chest because we want to be in business next year and ten years and twenty years from now.

Question: How long after the public announcement of the original wheat deal did you leave your post at the U.S.D.A. for your present job at Continental Grain Company?

Palmby: I departed the U.S. Department of Agriculture on June 7, 1972. To this date, the U.S.D.A. has never announced a Russian wheat sale. They did announce a Russian credit line on July 8, of that year. And let me hasten to say, that before I left the government, as early as December 1971 we stated that we stood ready to offer the Russians a credit line and that was finally put together 31 days after I left government.

REMARKS

By

Ted Schwinden, Lt. Governor
State of Montana

I had it on good authority that the subject of "How Prices Are Determined for Montana Wheat" is also the subject of a story by Agatha Christie or Sherlock Holmes or somebody like that. Then I found out I got it wrong. It's going to be part of a new book called "Russian Roulette and Other Gambles" by I. O. Banker.

Actually, the price of wheat is determined by a very simple formula that was figured out by the same fellow who wrote the IRS Farm Profits schedule. All you do is take the national war debt for 1945..... divide it by 10 per cent of the budget for the NASA man-in-the-moon program..... add the subsidy to New York City.... multiply the result by the latest steel price... and add the interest on a new combine times the price of a three pound can of coffee. Then you take the result and subtract it from the cost of living...in 1932.... in Afghanistan. If you take what's left over and add 13 cents, you can buy a stamp---maybe even a food stamp.

I was very pleased to hear that the steering committee had agreed to accept payment for participation at this forum in wheat instead of in money. That gives me the idea that wheat is still worth money --- and an idea like that is a good one to have around.

Another thing we have around is an ample supply of problems-- energy, inflation, OPEC oil, Panama Canal to name a few. One of the biggest problems that plague us as wheat farmers---and contributes in large measure to the notoriously poor support we have had in Congress-----is a bad public image. We, as farmers, are blamed by a large segment of the population for high food prices.

You and I know that farm profits have very little influence on retail food prices, but the media -- and, apparently, the U.S. Department of Agriculture -- are not aware of that fact.

Earlier this summer, I read an item in a newspaper, datelined Washington, which had as a headline, "FARM PRICES FINALLY FALL." The story started with this sentence: "Figures show prices paid for raw farm products declined by five per cent between May 15 and June 15, the first time this has happened in seven months, the Agriculture Department says." At that same time, the wheat price was down \$1.04 a bushel from the year before and the monthly price index average was the lowest in five years.

Just a few weeks ago, an Associated Press story, also datelined Washington, appeared in one of the state's major newspapers with the headline, "WHEAT CAUSES BREAD PRICE-RISE." The first paragraph read, "Consumers paid slightly more for bread in July than they did in June and an agriculture report indicates most of the increase was due to higher prices farmers got for wheat."

But, the second paragraph said that U.S.D.A. reports showed "that farm wheat prices nationally failed to increase from June to July," and the final paragraph said, "By U.S.D.A. figures, the July retail price of a loaf of bread was up six tenths of one per cent from a year ago while the farm value of wheat in the loaf was down 41.5 per cent and the middlemen charges were up 7.1 per cent."

Now, I don't know how the middleman price can go up, the wheat price go down, and the loaf increase can still be blamed on wheat. But that's what the public was told.

When it comes to image, we do have some things going for us -- primarily, a concerned and aroused industry and active and articulate organizations carrying our message. One such group is WIFE -- Women Involved in Farm Economics. And Karen Mattson, the group's Small Grain Commodity Chairwoman, came up with some interesting information not so long ago. According to her fact sheet, a farmer on May 17 of this year, could receive \$2.70 per bushel of Dark Northern Spring Wheat with 14.5 per cent protein at Chester elevators. That \$2.70 per bushel breaks down to 4.1/2 cents per pound. Our full cost of production in this wheat, with delivery to Chester, using our farm average yield and a fair return to the farmer, was \$4.33 per bushel, breaking down to 7.2 cents per pound. If the price for all wheat were to rise \$1 per bushel, the increase to the consumer should be less than two cents per pound. In fact, with the average cereal grain consumption

figure per person in the United States at less than 160 pounds a year, if the American Farmer GAVE all his cereal grains away, the reduction in the consumer's annual processed food bill would be less than \$6.00!

It might be a good thing to remember that the loaf of bread that everyone thinks costs too much contains only 2.5¢ of wheat -- and a total of 4.4¢ of all farm ingredients in that one pound loaf.

If consumers think the price of a loaf of bread is high now, just wait until they start paying the timber industry for all that sawdust -- the newest vogue in bread additives!

U.S. consumers, and too many national administrations, expect producers to support the inflationary complexities of our economy. There isn't a manufacturer in the nation who will stand still for selling his product for less than it costs him to produce it. But that is exactly what our farmers and ranchers are not only expected to do, but are being forced to do.

In Montana, 80 per cent of our wheat sales are to foreign markets. The United States is the major exporting country in the world wheat trade, and determines world grain prices. I recognize that other wheat exporting countries can and do sell under the U.S. market, but the reason is not because of higher U.S. prices. The very nature of the government grain marketing boards offers those countries the opportunity to undersell the United States whether wheat prices are \$2 or \$4 per bushel.

In determined efforts to protect Montana's grains industry, Governor Judge has made continuous concerted appeals to Washington, D.C., has spoken at length to President Carter and Secretary of Agriculture Bergland, has forged resolutions with other agricultural states in order to speak in defense of agriculture in one united voice, and worked to develop foreign markets for Montana wheat. Drought ... years of low prices ... unfair competition from other countries ... the rising costs of all elements of agricultural production ... are driving agriculture into critical circumstances. We farmers have a long tradition of independence -- a tradition as long as this nation is old. We aren't asking for a handout from anybody. After all, a handout would come from our taxes, too. What we do ask is fair, realistic treatment from the federal government.

The American family farm system has proven itself the most efficient producer of agricultural goods in the history of the world. The American agricultural industry has for decades supplied a consuming public with wholesome food at reasonable prices. Our farmers have not failed this nation. But if this nation fails to resolve the problems of our farmers, we will see not only the end of a lifestyle and an agricultural production system which are models for the world, we will also see our consumers helpless in the face of increasing corporate domination of the industry which supplies our most basic necessity.

If we allow agriculture to go down the drain, we will be reading an obituary in the newspapers instead of a distorted cost-of-living story -- an obituary for the economic stability of our state, and the economic integrity of our nation. We must not permit that to happen.

This Eastern Montana farmer has no simple solution -- but I will offer one final observation. If we allow America's diversified and independent farm production system to sicken and die -- then much of what has made our 200 year experiment in democracy flourish will sicken and die with it.

THE PRICE OF WHEAT -- CASH & FUTURES MARKET

by

Al Donahoo

Reactor Papers

by

Knud Grosen

Gene Thayer

Gordon Matheson

Bill Brinkel

Jack Gunderson

THE PRICE OF WHEAT -- CASH & FUTURES MARKET

Al Donahoo, Executive Vice President
Minneapolis Grain Exchange
Minneapolis, Minnesota



The Minneapolis Grain Exchange, a commodity market, has 420 members. These members represent about 140 firms -- large and small -- which are a cross section of the entire grain industry. Our membership includes producers, exporters, processors of all types, elevator operators (county & Terminal) and merchandisers. Membership in the Minneapolis Grain Exchange is open to anyone who has a reputation for fair and honest business dealings and who is of legal age.

The Exchange is governed by a 15-man Board elected by the membership. The Directors, who serve a 2-year term without pay, spend many hours on Exchange business. With increasing Government regulations, the hours the Board spends on Exchange business is growing at an accelerating rate. The Board sets the policy for the Exchange and the professional staff sees that policy is carried out. Total Grain Exchange staff total about 100 people.

At the Minneapolis Grain Exchange we have a large cash market for Wheat, Durum, Barley, Corn, Oats, Rye, Flaxseed and Soybeans. We also have a futures market for hard Spring Wheat and Durum.

The functions of the Exchange are (5) in number. It provides a meeting place for buyers and sellers to facilitate trading. On any day a seller or his agent can offer grain for sale and a buyer or his agent can come and see what is for sale. The Exchange also provides a set of Rules under which trading takes place. These Rules assure that buyers and sellers are treated equally. Each year thousands of contracts worth millions of dollars are made on the trading floor. The great majority of these trades are made on a man's word. There are not many disagreements over contracts but when there are the Exchange provides a system of arbitration to quickly settle these disputes. The Exchange provides some services to its members, that members want an unbiased third party to perform. An example of

such services would be the obtaining of grain samples from rail cars for a check against the official sample and the weighing of grain. The Exchange also collects all types of valuable commercial information for its members and the Exchange disseminates valuable commercial information to the public. In summary, the functions of the Exchange are:

1. to provide a trading facility
2. to provide rules of trade
3. to provide a system of arbitration
4. to provide certain services demanded by members
5. to collect and disseminate valuable commercial information

PRICE

The most important information disseminated from commodity markets is daily price information. A question asked many times is "what determines price?". Prices are determined by supplies of a commodity on one hand and the demand for it on the other. Some of the factors that affect supply of wheat, for example, are the acreage planted in all wheat producing countries, weather around the world, outbreaks of insects and disease, available substitutes (rice for wheat) and actions by governments such as export embargoes.

Some of the factors that affect demand are human consumption, needs for livestock, industrial uses, changes in income levels and government actions.

Prices allocate productive resources among the various commodities. For example, we saw farmers in Southern Minnesota plant more wheat and less corn and soybeans than normal in the spring of 1975 because wheat appears to give a greater economic return. In 1976, these same farmers went out of wheat production and they planted more soybeans -- all in response to price.

When allowed to work, market prices will effectively ration supplies. Records maintained by commodity exchanges over the 100 years of their existence show that the U.S. has never run out of the major grains. During these years no embargo of grain and soybeans was needed to assure us we would not run out of grain supplies. No matter how short the crop, enough users get priced out of the market

to leave something until a new crop is harvested. When the crop is larger than normal, new users are brought into the market by bargain prices and it disappears. Again, the new users will never consume all of the supplies. Inventories will be built for the following year.

At any given time price is the result of an interplay between supply and demand forces. A price at any given time is an attempt to strike a balance between these forces as people make judgments on buying, selling or holding of commodities -- people are attempting to forecast price outlook. In the case of the major agriculture commodities these judgments are registered in futures markets. It is a difficult and complicated job, as anyone well knows who attempts to predict the price outlook. Let me give you an example. About 4 years ago, in the spring and summer of 1973, a series of seemingly unrelated events occurred in widely scattered parts of the world. There was a change in ocean currents off the coast of Peru. A decision was made in Washington, D.C. to officially devalue the U.S. dollar. There was a drought in Africa and parts of Asia and there was unparalleled prosperity in Western Europe and Japan. But these events were not unrelated from an economic standpoint. There was an economic convergence of the events in the principle U.S. market place for soybeans -- the Chicago Board of Trade -- and the price of soybeans in Chicago went to \$12.90 per bushel.

The movement of prices in a market is the attempt of buyers and sellers to find the "right" price. The "right" price is the one which will cause the holders of inventory to put a sufficient supply on the market to satisfy the demand. If the "right" price were found there would be no price movement except to reflect the cost of storage. But we know prices do move up and down -- almost minute by minute and day to day. This is because our crystal ball does not let us see into the future too clearly. Or it may be if we are right about some event happening we do not weigh properly the market import of what we see, i.e. a shift in ocean currents off of Peru having an effect on soybean prices. Changes in price levels are the results of errors in price forecasting and every

day we can look at futures markets and see the results of the changes in judgment of the holders of inventories and the users of their supplies.

A FUTURES MARKET

References have been made to futures markets, but perhaps it is time I explain what a futures market is. A futures market is a place in an organized exchange where individuals or their agents can come together to buy and sell commodity contracts for future delivery under a specified set of trading rules. Some of those rules include time of trading -- 9:30 a.m. - 1:15 p.m., the place of trading -- a pit, the method of trading -- by open outcry, and even the amount of trading. For example, no speculator may hold at anyone time contracts of wheat totaling more than 3,000,000 bushels. In a futures market, like any other market, no more contracts can be sold than are bought. You may think that is obvious, but I continually hear that you can buy or sell unlimited amounts in a futures market.

A futures contract is a legal binding contract that must be fulfilled. It may be fulfilled by making or taking delivery during the delivery month, or it may be settled with cash at any time during the life of the contract. The futures contract specifies the quality, where delivered, and when delivered. The price and amount are set at the time the contract is entered into.

WHO TRADES FUTURES CONTRACTS

There are two groups of people who use futures contracts. One is the owner of inventory -- merchant, elevator operator, producer, etc.. The owner of inventory may have a risk he does not wish to carry. There is the fear the price may go lower. The long hedger wants to hedge to eliminate the risk so he sells a futures contract. He owns grain. He sells a futures contract. In this method he holds onto the grain but he has gotten rid of the risk. His contract will be bought by some investor willing to assume the risk in hopes of making a profit. The investor will make a profit if the price goes up and he will lose if the price goes down. This investor is called the speculator.

Futures markets can be a very useful marketing tool to all elements of the trade, including the producer. Farmers can use the futures market to sell a growing crop well before harvest if he feels the price is right. After a crop is grown the futures market can be used to make a forward sale or it can be used to earn a return to storage. Even though a producer may not directly use the futures market it can still be used in decision making if these markets are understood. If you understand the relationship of cash grain to futures, it will be helpful in determining if a forward sale of cash grain is one you should accept. A knowledge of futures prices can assist in determining what to plant. The more alternatives available, the more important these futures prices in making these determinations. Futures prices can also help determine whether to store or sell.

Much has been written about the speculators and speculations. Most of what has been written about the role of the speculator is not accurate. It should be understood that not all of the commodity speculators are in the futures market. In fact, most of them are not. But the question is raised "Do speculators affect price?", and the answer is "Yes," and in many different ways. Speculators do effect interim prices to the extent they control inventory, and the owners of inventory are speculators. He has taken a position of holding supplies off the market at the risk of loss in the hopes of a profit. He is pitting his judgement about the direction of prices against the present market by deciding to hold rather than sell. If he is right he will make money.

In the case of agriculture commodities such as wheat the most important group of speculators are farmers. At any given time farmers hold more inventory than any other group. Today the second most important inventory control group is the speculator in the futures market. However, the amount controlled by the latter group is very small compared to that controlled by farmers. If you doubt this, let's look at who controlled the wheat inventory on July 31, 1977. On that day according to government figures, there was about 2.8 billion bushels of wheat in the U.S.. On that same day the total open

interest in the futures market (Chicago, Minneapolis and Kansas City) totaled only 304 million bushels. Of 304 million bushels, long reporting and non-reporting speculators held about 111 million bushels of inventory. That left the producer speculator with approximately 2.7 billion bushels of inventory. Clearly the producer is the largest speculator in the wheat market. What one finds in wheat would also be found with the other major grains. Which group of speculators can have the greatest influence on price?

A few years ago the taxpayer, through CCC, was the largest controller of inventory -- the largest group of speculators. We remember how CCC affected prices. If the price went up a few cents the inventory spigot was opened and enough wheat came on the market to reduce the price.

Speculators also influence interseasonal price patterns. Production of commodities must be planned from year to year. Individual farmer speculators and the public that speculate through futures markets must anticipate events to come and the impact of these events on prices. To the extent that these speculators forecast accurately, prices will be more stable than if the forecasts are inaccurate. So accurate price speculation can help stabilize prices.

Prices to producers are higher than would be expected in the absence of speculators in futures markets. The merchant who buys farmer products hedges rather than assuming the risk of inventory ownership. Because they are not willing themselves to carry inventories at existing prices, it follows they would bid less if they could not hedge -- enough less to make the risk worth assuming.

Many assume that speculators in futures markets cause volatile markets -- perhaps more volatile than markets would be otherwise. However, a study of the soybean market from October 1976 to April 1977 suggests the opposite may really be true. On September 30, 1976 long reporting speculators held 255 (million bushels) with 56.3% of the open interest. By Jan. 31, 1977 they held only 143 million bushels equal to 44% of the open interest. What these figures show is that as soybean prices became increasingly volatile, speculative activity by the reporting trades sharply declined both in terms of total bushels held and as a percentage of the open market.

An exodus of speculators from the futures market during periods of volatile prices is not uncommon. The risk of loss in uncertain markets with substantial price swings are greater than most investors are willing to assume.

How does what has been said explain the role of futures markets in determining the price of wheat in Montana? As was stated earlier, the interplay of supply and demand are registered minute by minute -- day by day, as people publicly announce the price at which they will buy or sell wheat.

There are several things you must remember about a futures contract. It is legal and binding and must be fulfilled. So a futures price is the best judgment today of two people -- a buyer and seller -- of the value of spring wheat - 13.50 protein in a Mpls./Duluth elevator for delivery in the month of December. The price of cash wheat and the December futures price must be equal in the delivery month. So there is a direct relationship between cash and futures prices. Because of the delivery provisions, futures contracts are not so much paper -- they are commercially real and the prices must reflect values at which the wheat can be moved into consumption. Also, the opportunity to make or take delivery is always present and enough deliveries are made or taken to keep futures and cash values in close relationship.

In the marketing of grain, futures prices become the central focus and the pricing point of the marketing system. Futures prices represent the general level of the price and all the various cash prices that exist at any one time are established in relation to the futures.

Let's look at this futures-cash price relationship. In Minneapolis on September 2nd, the December wheat futures was selling at \$2.49 3/4. This price was for wheat of the following quality - #2NS 13.50 protein to be delivered in a terminal elevator in Mpls./St. Paul or Duluth/Superior during the month of December. That is the general price level for spring wheat. In the market that day was a car of spring wheat. It grades #1DNS - 15 protein 60 lbs. TW. The car can move to either Mpls. or Duluth at equal freight. What will it sell for and how is

it determined? The seller will canvass the market for the best price. There are several factors that will cause the car to sell at a premium. He finds a buyer who will pay a premium of 30¢ a bu. for the 15% protein wheat. The high test weight is worth 2¢. The buyer wants the car at Duluth so the billing may be worth a 32¢ premium. The buyer says "I'll give 32¢ over for the car." Over what! 32¢ over the future price of @2.49 3/4 or a flat price of \$2.81 3/4.

Prices can be modified by location and time. If the car were in Great Falls the quote might be 8¢ over the December. If the car were in Portland, the price might be \$3.23. So there is one price and the individual cash prices vary according to contract terms such as time, location and quality. Prices of a commodity at its multitude of locations are inter-related by transportation costs.

It should not be assumed that price relationships are unchanging. They do change as supplies in an area may change or the demand for wheat out of an area may change. Also, transportation rates and modes of transportation may change. Perhaps you can now use truck and barge combinations where only rail was available before.

In closing, here are some things you should remember about futures markets. Futures contracts are for real not just paper. Futures contracts mature and turn into cash commodities. They represent cash inventory in store but they are committed for delivery or they represent commodities in the process of production that will inevitably move to market. Futures contracts are temporary substitutes for cash commodities. The real world of supplies of cash commodities and need for them determine price.

RESPONSE TO ADDRESS BY

AL DONAHOO

By

Knud Groesen, Farmer
Big Sandy, Montana

The reason it was mentioned in my introduction where I was born was so you wouldn't have to wonder where I got my language from.

It's really a real honor for me to be up front here with a group of my colleagues whom I've considered to be the most able of our profession. The reason I say that is because I know so many of you. I'm very pleased to see so many are here today. Three or four days ago, I read a report in the Great Falls Tribune about a meeting of manufacturers from the state of Montana. They had a forum here; same place, and they had eleven people that showed up. And I know how much effort was put into putting this program together and I didn't really sleep good last night; I was worried about how many were going to be here and I'm so pleased so many are here. I'm especially happy to see so many ladies are here. Because they are, on most farms, the difference between success and failure. Economically of course, as well as happiness and satisfaction, and the latter two, are in my opinion the end goal. The economics of an enterprise being one of the vehicles to that end: happiness and satisfaction.

Now, we're fortunate to have on our panel today four very able individuals here, but I also feel that there ought to be a little participation from you people out there. So, I'm warning you the panel, I'm going to enforce a five minute time limit on you and if you want to use your time to tell stories fine, but the limit is five minutes.

I'd like to introduce to you first, Mr. Gordon Matheson, who is a farmer from Conrad. Gordon is First Vice-Chairman of the Board of the Grain Terminal Associations. He's Director of the Federal Land Bank Association of Conrad and he's Director of the Montana Chamber of Commerce.

It's a pleasure for me to introduce a local merchant, Mr. Gene Thayer, who is the President of the Montana Merchandising, Inc.. Mr. Thayer is Director of the Great Falls Chamber of Commerce and the United Way. He is Director of the Pacific Northwest Grain Dealers Association and Director and Vice President of Montana Grain Elevator Association. He is a member of the Minneapolis Grain Exchange. He is also member of the City Commission of Great Falls and the Mayor-Elect of the city of Great Falls.

Mr. Bill Brinkle is a wheat farmer, a county commissioner from Stillwater County and a director of the Montana Wheat Marketing and Research Committee. He is well qualified to speak on the subject of wheat prices.

Our last person on the panel is Jack Gunderson from Power. Jack is a grain farmer. He is a member of the Montana Grain Growers Association, has been a Director of the Montana Farmers Union and Cascade County President in 1960. Jack serves as a member of the Montana House of Representatives and has served there since 1965.

RESPONSE TO ADDRESS BY

AL DONAHOO

By

Gordon Matheson, Farmer & Director, GTA
Conrad, Montana

I can assure you I won't take more than the five minutes and I'll delete the joke because that was going to take about five.

It's a pleasure to respond to the speaker that we just had. I visited with him at some length last night and the function that he plays at the Minneapolis Grain Exchange is not foreign to many of us. I'm sure that many of you have visited there. And Al, when you invited people who had not visited the Exchange to come there, I wondered if you really meant that because very often I talk to people who have visited the Exchange and come away with a great deal of misunderstanding or doubts about the activities of the Exchange. Partly it's because we watch the bidding in the pits and don't understand it. Maybe our guide down there should spend more time in informing visitors about the function of the cash market and role of the futures market.

Recently we have read a lot and we hear from our economist friends encouraging farmers to get into the futures market and make more use of it. I think a lady this morning put it very well, "why should we, because we don't see anything there at this time that will guarantee us a profit." It's possible we could minimize some loss but we might also minimize any potential profit. So, I'm not surprised that more farmers don't use the futures market, but I think the people that we deal with need it in order to provide a daily market in order to give us, the producer, some idea of what level of prices wheat is trading at.

I found it difficult to concentrate on the remarks of the speaker that we've just heard because of all that went on this morning. And I don't think that there is any one answer to the problem of pricing wheat. It's easy for us to throw barbs and darts at somebody that comes to speak. I'm thinking of Mr. Palmby. It's

easy to toss a few bricks at the Continental Grain Company, but it solves nothing. They are large enough to take it, they have been taking it for a long time. I think we should give due credit where credit is due. They have done a tremendous job over the last hundred or so years of developing markets. They have developed facilities worldwide and they have made some money at it and we're not making any money raising it and so somehow we've got to cut ourselves in on some of that profit if there is any.

Now, there's one of the big grain companies that I'm sure would be willing to share their experience of last year with us; they are in the same boat that we are (operating at a loss). So, it doesn't always go as well as we hear it does.

Nobody can condone the illegal actions that took place on the Gulf, particularly there, by the grain companies. Certainly we need more supervision where those things are going on. But, by the same token they have done a good job and do give us access to markets that we might not otherwise have, at least in the short run, until farmers develop better ways to handle it.

This morning one of the respondents said something about the cooperatives. He was impatient for the cooperatives to get a facility so we could go all the way. I'm as impatient as that gentleman is to get that job done. However, our cooperatives will never have the ability to have "any origin" grain. We wouldn't want them to. We would like to have them market our grain. And yet when there is a shutdown on the docks, a shortage of shipping in this country, or any other problem, a railroad strike, whatever, we're out of the market. There are, I think, some advantages in having a broad marketing ability.

Incidentally Al, that was a pretty clean report you gave of the Grain Exchange. I understand that the Justice Department is looking at it and the Futures Trading Commission of course, has a lot of rules and regulations. Hopefully, though your report is accurate but I'm sure that some of the things that we've heard have caused a lot of doubts in minds of producers as to just what does go on. And I think that we should be grateful to you for coming and explaining to us just how the Grain Exchange does function.

All of the facilities that are available to us as producers for marketing this grain have been paid for by our grain. I think we should keep that in mind. When we talk about going out and building more and duplicating what has already been done, farmers are going to pay for that too. I think the Big Six probably welcome our spending money and going into competition with one another. I think we are depressing our own markets by spending money unnecessarily for facilities. On the other hand, a lot of new facilities are needed as farms get larger, trucks get bigger and we can do a better job of accumulating grain. We are going to need some facilities. So I think there is a lot of things that we need to consider.

I've been punched, so I guess that five minutes are up. One thing we hear little about, and we should all consider, is our production of renewable resources. Agricultural production is the greatest source of new wealth. The more we get for it, the more new wealth that we generate and the better it is for everybody.

RESPONSE TO ADDRESS BY

AL DONAHOO

By

Gene Thayer, President
Montana Merchandising, Inc.
Great Falls, Montana

When I immigrated here from Belt about twenty years ago, little did I realize that I was going to be elected to City Commission and be the Mayor of this great city. I would be derelict in my duty as a City Commissioner if I did not seize this opportunity to welcome you, on behalf of our citizens, to the city of Great Falls. We are indeed happy to be your host city for this very important conference. Those of us in business are acutely aware of the importance of agriculture to this community. The economic price dilemma of farmers and ranchers today will be the economic dilemma of the urban centers tomorrow. I compliment you on your interest to participate in conferences such as this to seek solutions to your problem. I am very pleased that I was invited to participate on this panel today.

I did not find anything in Mr. Donahoo's paper that I necessarily disagree with. He gave an adequate explanation of the purpose and how the Minneapolis Grain Exchange functions. I certainly agree with the statement that, "when allowed to work, market prices will effectively ration supplies". With today's glut of wheat we don't have to worry about embargo, but we will all see the day again, and it might not be too far off, when our friends in Washington will be talking about putting on some embargoes. I hope we can prevent this from ever happening again. The American consumer will never run out of grain.

I also support wholeheartedly the premise that without the futures market, farmers would receive less for their produce because of the risk associated with holding inventories. In addition, the speculator is a vital part of the futures mechanism and is performing a very important function. Both of these are true facts. I don't think that the

explanation of how the futures market affects the price to the Montana farmer is adequate. I would ask Mr. Donahoo the following questions: How are you disseminating the information on daily market closures for cash and futures, particularly since the new dilemma that you have been placed in by one of the regulatory agencies? Where should the farmer look to get this information and should the Exchange, meaning the Minneapolis Grain Exchange do more work to acquaint the farmer on how to use the futures to hedge?

I have read all of the information that has been sent to those of us on the panel that would make these comments. We may not have a perfect marketing system in the United States but it's the best there is in the world. The last thing we want is to have a bureaucratic board selling our grain for us. Along with that, if they followed the Canadian system, you would be told how many bushels to deliver and when you could deliver them. I also remember well when the Canadian Wheat Board sold out their wheat two years ago and the price kept on going up to a dollar a bushel higher. Many of our producers were still marketing their grain on the remaining stocks that they held in their own inventory.

We should not ever return to a system of exporter subsidies and dumping of CCC-owned grain on the market. We should take full advantage of low interest loans to build storage to keep grain at the point of origin. We should be willing to be aggressive sellers of that portion of our production that qualifies for direct payment for grain marketed at less than the target price to insure the United States getting a larger share of the world market. We should be cautious about entering into agreements with competing exporting nations because history has proven that the United States is the only nation that is expected to abide by the agreements.

We need to do a better job of informing and educating the producers so there is little doubt what carryover supplies are; and what world-wide supply and demand factors are and what the futures market are telling the producers to expect for price. We need to keep farm programs as flexible as possible to allow farmers to move quickly from one crop to another. We need to do a better job of teaching

farmers to use the marketing avenues open to them such as forward contracting. The futures market is not a dirty word. You've all heard all kinds of stories of how the speculators keep fouling up your market. You hear that the big companies control the market and lately you've heard how the foreign countries have taken control of our futures. It just isn't so. The grain exchanges are so regulated and controlled that none of these things are possible.

Wouldn't it be wonderful if all of you here today, could say that you sold this year's production last year and you locked in a price of three dollars per bushel for ordinary winter wheat here in the Great Falls area. Well the fact of the matter is that you could have done that. It has been alleged that the only choice the farmer has over his price is what two competing country elevators are willing to pay him. The fact is, that the futures market provides you the opportunity to market two crops ahead if you choose. And I certainly agree with the statement that was made this morning that, "we obviously wouldn't use the futures market if it was going to lock in a loss on our production". I believe that we have the smartest farmers in the world when it comes to production. You can grow grain under the most adverse conditions but I think there is room for improvement on the way we market it. We have a free, open system that will work if we give it a chance. We need less government interference, not more. A market oriented program can work. Sure this system will give you big price swings. Wheat may trade as low as two dollars on a year of great plenty, but you will have the opportunity to see six dollars again also.

I want to leave you with this thought: it's fine to have a high support price but what good is it going to do when we isolate our grain at a price that enables competing nations with monopolistic grain boards to undersell us and take even a larger share of the world market? I guess what I have been saying is that, "Sure, times are tough, but keep the faith, it's going to get a lot better." It may take a few years, but we're going to work our way out of this and you will also get better prices.

RESPONSE TO ADDRESS BY

AL DONAHOO

By

Bill Brinkel, Farmer & Director
Wheat Marketing & Research Committee
Montana Department of Agriculture
Broadview, Montana

The Exchange plays an important function in the movement of grains from producer to consumer. As we know, production costs have escalated and we are now in a position of high cost and low income, thus requiring a boost in price in order to make a profit. Somehow we need to be able to have more pressure from the producer's side to increase prices. Supplies govern the volume available on the market and as we fill our bins with wheat from fresh broken sod and increased production on existing land, we find ourselves in a predicament that is very difficult.

Montana has a quality product that far exceeds that produced in many areas of the world. We need somehow to develop a special market or demand a premium for our efforts put forth in production and storage. Conscientious efforts in offering a product free of undesirable seed and foreign matter need be compensated more fairly. Therefore, when a premium product reaches the Board of Trade or any buyer, it can be labeled as such.

Mr. Donahoo mentioned price was somewhat determined by what producers and buyers could agree upon, but didn't suggest that producers often are forced to sell to meet the cost deadlines. To meet these cost deadlines, it would be appropriate to implement an easier understood system in the futures market so that small farmers may participate. Often times the lower income farmer, due to a lack of education or working capital, is unable to take advantage of the futures market. As was previously stated the marketing system offers a way to move our commodities, but somehow with the changes in modern technology and living, there has to be a way to adjust the system to better fit the needs of today's agriculture.

RESPONSE TO ADDRESS BY

AL DONAHOO

By

Jack Gunderson, Farmer
Power, Montana

Mr. Chairman, Mr. Donahoo, panel members, ladies and gentlemen:

I have gained a great deal of respect for the KEEP program.

My understanding of KEEP is that it's purpose is to get people to study and discuss issues. From the volume of mail I received from Dr. Quenemoen, I have certainly been studying the last couple of days trying to determine how prices are made in Montana.

Most speakers have a joke at the start of a speech. I'm not too good at jokes, but in the course of my studies I think I ran across a quote that is the biggest joke I have heard in a long time. It is a quote from the administrator of the U.S. Foreign Agricultural Marketing Services, "We believe that it's against the interest of the farmers in this country to have anyone but themselves decide the price of their grain." If this were true, we wouldn't have any problems.

In studying the issue of how prices are made in Montana, I would recommend getting a copy of the Senate Foreign Relations Committee Hearings on Multi-National Grain Corporations. This report and Mr. Donahoo's remarks raise some interesting questions about the free market. I, as a grain farmer at Power, Montana, question how my prices are determined.

I would like to respond to Mr. Thayer of the panel who has great faith that the system will return us a fair price if we have faith in the system by saying, "I hope my banker keeps the faith too, baby."

The interesting things I did find out was that we have various terms that I think we all should understand in Montana. We have terms such as "spot market", "cash price" and "futures market".

Another interesting aspect about the Minneapolis Grain Exchange is that 80% of all transactions that take place are never recorded. I understand they have a closing committee of buyers, sellers and terminal operators that meet at the end of trading each day to determine the price wheat traded for that day. Some days there isn't a single

car of particular classes or grades of cash grain traded, but they get together and decide what the price would have been if there had been any traded. This is the price that goes out to my elevator at Power and this is the basis on which they determine what they will pay me if I decide to sell on a given day.

We also have a Rotterdam-C.I.F. prices, which again are determined by a committee which includes some of the multi-national grain corporations. This committee determines what the lowest bid price is for wheat arriving in Rotterdam. This doesn't mean that any wheat was sold at these prices, because if it is too low nothing is sold. This price is immediately sent to Chicago, Kansas City and Minneapolis, and this information is used by the speculators to determine my prices. I feel like I'm at the very end of the information line. If I do happen to receive some of this information, I don't know if I can depend on it to try to make some reasonable marketing decisions.

I was delighted to find out from the panel this morning that there are other people in Montana beside myself who might consider a wheat board. I made a trip to Canada a year ago and this will be of interest to you, Mr. Donahoo. I went on a marketing tour with some Canadian grain farmers. I learned a lot there about the Canadian Wheat Board and about Canadian farmers not liking the system. I learned that the Canadians had a referendum on the Wheat Board, I don't know just when they had it, but the Wheat Board was overwhelmingly endorsed by Canadian Farmers.

I think the only thing that we as farmers have to realize is that if we do go to a production and marketing board, sure the farmer is going to have to give up some of the freedom many people say he has. My comment on this is, we talk about government price ceilings, but I'm doggone glad we've got some kind of government ceiling, if you can call it that today. Right now I'm looking at a loan rate of \$2.18, plus a \$.65 deficiency payment, which comes to \$2.83. This looks a lot better to me than a free market price of \$1.82 at harvest time or a price now of about \$2.08.

These are things that have to be considered regarding how prices are made in Montana. Until we do get realistic about it as farmers and match production to the market, we will be in economic trouble. How as individuals can we do this?

Mr. Donahoo gave a good example today when he told of the Minnesota soybean farmer raising wheat instead of soybeans. We cut wheat production to increase wheat prices, so then the Minnesota soybean farmer raises wheat instead of soybeans and down come our wheat prices. We go around and around among ourselves. I think this is the helpless feeling that I have and many Montana farmers share with me.

We must come up with a new production and marketing system that we have input into and can control. Until we do I don't think you will see much improvement in price. This has been brought up several times today. We need some kind of a farm marketing board. To me, I think it is the only answer if we are ever to determine what the price of wheat in Montana will be.

COMMENTS, QUESTIONS AND ANSWERS

For

THE PRICE OF WHEAT -- CASH & FUTURES MARKET

By

Al Donahoo

QUESTION AND ANSWER SESSION

Question: The controversy over the Hunt family, wasn't that because the Hunt family demanded delivery of the soybeans? And you say that it makes no difference if you demand delivery when you buy futures contracts. Isn't this the reason that the Hunt family upset the futures market and the reason that the CFTC filed suit against them?

Donahoo: No, delivery of soybeans was not the issue. I know very little about the Hunt matter but the question was strictly one of exceeding trading limits. Am I right there, Mark? It didn't involve price, delivery, or anything of that nature. It was whether the Hunts had bought more grain than they were supposed to under the regulations of the CFTC act.

Question: What would happen if speculators sold large volumes of grain on the futures markets and buyers demanded actual grain delivery; would it have an effect on the cash price?

Donahoo: I don't know. First, what is a large volume of grain? Anytime anybody goes in and sells a contract, he's got to expect that he may have to make delivery and I see it having little or no effect on the price.

Question: Why is it that about twenty bushels were traded on the Exchange for every two bushels raised?

Donahoo: I believe the question is, what happens if the volume of trade in the futures market is considerably larger than the amount of wheat produced? It is not true the volume of trade is greater than the amount produced. I don't have the figure here but with a two billion bushel wheat crop, I don't believe the volume of trade and open contracts has ever approached that. The same way with six billion bushels of corn. We've never traded in that amount or had any amount approaching six billion bushels in open interest. There is a tremendous amount of grain produced that is not traded on the futures market.

Question: What percentage of futures contracts are ever delivered and why?

Donahoo: Usually a very small percentage of grain is ever delivered on futures contract. However, that will vary from delivery period to delivery period. There are many reasons why little grain is ever delivered. Let me give you an example. Suppose I needed wheat and I had bought myself a futures contract. It is getting close to the time the contract will expire. I have to make up my mind: do I take delivery or do I settle the contract for cash? I have those two choices. The futures markets are usually for price protection rather than for inventory accumulation but here are some things that I would think about. First of all, if I opted for delivery, I wouldn't know exactly when I was going to get it. The rules say that I can get delivery sometime, say during the month of December. The exact day of delivery is decided by the person who is making the delivery. Maybe I'd like to have delivery the 15th day of the month, but I don't have that choice. So that would be one reason why I might not want to take delivery. Another factor to consider is that I don't know what elevator I'm going to get it in. The rules again say that wheat will be delivered to me in an elevator in Minneapolis or St. Paul or in Duluth-Superior. Perhaps I have a special need for it some place else. With these uncertainties, I might say, "well I'll just take my money". I can settle up my contracts in cash. "I'll just take my money and then I'll go into the cash market and buy exactly what I want, where I want it, and when I want it." That might be the choice that I have to make. On the other hand, if I felt I was paying a high premium to settle those contracts for cash, I might say, "well, fellows, just deliver the wheat to me, I'll take it." Again, this is my choice. Why isn't it delivered? It's a decision that every person who has a futures contract must make. He's the one who makes the choice and

he says, "well, I want it delivered or I don't want it delivered and if I don't want it delivered, we'll settle it up for cash."

Question: In the past couple of months, I have not been able to find protein premium quotations on spring wheat from the Minneapolis Grain Exchange. As I understand it, this information is no longer reported because of a disagreement between the Exchange and the Justice Department. Do you know when this difference of opinion will be cleared up?

Donahoo: I don't know whether I do or not. This is a matter that has been going on for about fourteen months now and I don't know that we're any nearer a solution. I don't want to take a lot of time but I'll try to explain the problem from our viewpoint. Mark Powers here has been very deeply involved in this and he may wish to add something when I've finished. If you were to call the Minneapolis Grain Exchange and ask what grain had sold for on any day, since the 15th of October, 1881 up until about the middle of August, I could go to our annual reports and find the price. Since the middle of August, I cannot tell you what we would consider to be the official Minneapolis Grain Exchange grain price because we haven't been putting one out.

For each of the major grains, we had a committee made up of buyers and sellers who at the end of the day came together and from their knowledge of what had been bought and sold, the committee reported a composite price figure for 15 protein wheat. Perhaps 15 protein sold that day for \$.32 over the futures. That was the type of information collected. That was the information sent out to the farmer, to the public.

Somewhere along the line this procedure was questioned by CFTC as to whether it was accurate. A hearing was held in Minneapolis on March 9, 1977. It was determined that the

Grain Exchange had not been accused of releasing any misleading information. There was no reason to doubt that our price information was not an accurate reflection of what happened in the market that day. Farmers did want this information and it was determined that we should get on with the job of doing it. However, we did not have written instructions for these committees to follow. They had oral instructions but not written instructions. And since that time, Mr. Powers and I have been trying to come up with a set of "guidelines" that will say to anyone interested "this is the way we have been assembling our price information". I think that Mr. Powers and I are very close to arriving at a solution.

Somebody mentioned that we put out a price when there wasn't any carload sale. Let's assume that today in the marketplace there were cars of 14 protein and there were cars of 16 protein wheat that sold but there wasn't any cars of fifteen protein wheat. Yes, we would give you a price figure for 15 protein that in the judgment of the committee would have been the price had there been a car of grain of 15 protein available in the market. That price was the committee's judgement of what 15 protein would have sold for. However, that price was clearly labeled as nominal price, meaning that it was somebody's judgment; that there wasn't an actual sale. Nominal prices are used in many types of markets. You can get a lamb price out of South St. Paul everyday. Lambs are not in the market everyday, but you can get a lamb price. It is somebody's judgment of what those lambs would have been worth had they been on the market. The argument has been over having to develop a set of guidelines that would instruct the committees in written form just exactly what they were supposed to do in assembling price information.

The Justice Department has gotten in the act and I believe it is accurate to say that the Justice Department does not like a committee system of price reporting. Justice went so far as to say, "have one person make a market price summary and we don't really care whether it's accurate or not. One person acting by himself can't be guilty of collusion; two people talking together always raises possibilities." The attitude of the Justice Department raises a question of whether we can continue to put out meaningful price information.

Grain Exchange Members don't need this information. Mr. Thayer doesn't need it. The price information appears to be useful to producers. For example, a woman called and she said, "where can I get a price for corn since you people stopped giving it out?" I said, "well, you can always call your country elevator and he'll tell you." Her reply, "well, yes, but I'd like to have your information before I go in and talk to him." I think this has been the value of the price information. You can be in the field on your tractor and you can get a market quote. You can find out whether the market was up or down, unchanged.

Frankly, I never thought I'd see the day when a government agency would tell a market not to disseminate information. Mr. Powers may want to comment on what I've said. He can comment on whether I've given an accurate reflection of what has happened on the subject of price dissemination over the last fourteen months.

COMMENT BY

Mark Powers

Al's given you a very accurate description of what has happened. One of the exchanges came to us and asked to have their rules approved. That meant that the CFTC had to take a look at them. The Justice Department became interested because they thought the committees were operating against the anti-trust laws. When the Justice Department issued it's report, which was critical of the committees, the M.G.E. decided not to risk being sued by Justice and elected to discontinue the operation of the committees. We have never found that the people of the Minneapolis Grain Exchange or the Kansas City Board of Trade were abusing their positions or that they were putting out false information. For the CFTC it has been solely a question of the procedures, the guidelines that demonstrate or I should say, dictate how the committees will operate, what kind of information they will take into account and, most importantly, what records they will keep. This latter one is a key element. If you have a question or someone else has a question three months later, about what happened on a particular day, you or they should be able to go to a record and find out what happened that day. What the price was? Who helped determine it? And why.

A MECHANISM FOR PROTECTING FARMERS

by

Mark Powers

Reactor Papers

by

Dean Hellinger

Gene Carroll

Frank Daniels

Gail Cramer

Kent Norby

A MECHANISM FOR PROTECTING FARMERS

Dr. Mark Powers, Chief Economist
Commodity Futures Trading Comm.
Washington, D.C.



It is a pleasure for me to be here with you today to discuss the role of the Commodity Futures Trading Commission in the regulation of grain futures trading.

Futures trading has been expanding at a dramatic rate in recent years. Total futures trading in 1975 was double that of 1971 and triple that of 1966. Total trading in the first seven months of 1977 is 43 percent above that of the same period in 1975.

A large part of this growth has occurred in the wheat and grains. For example, between July 1971 and July 1977, the total open interest in wheat increased by 149 percent, in corn by almost 100 percent and in soybeans by 37 percent.

Lest you come to think that these increases reflect only the influx of speculators, I hasten to point out that there is a substantial proportion of these open contracts held by commercial interests who classify their positions as hedgers.

According to reports filed with the CFTC by traders with positions of 100 contracts or more, at the end of July hedgers held over 54 percent of the long open interest on the Chicago Board of Trade wheat contract and over 66 percent on the short side, 112 million and 137 million bushels, respectively. In Kansas City, hedgers held over 85 percent of the long side, 60 million bushels, and over 81 percent of the shorts, almost 57 million.

In the Chicago Board of Trade corn contract, there were 453 million bushels open at the end of July. Reporting hedgers held 70 percent of the longs and 50 percent of the shorts.

The soybean hedgers in the Chicago Board of Trade contract at the end of July held over 40 percent of the long interest and 32 percent of the shortside.

Given this increase in trading activity and the large interest of hedgers, what is the role of the Commodity Futures Trading Commission in regulating the markets?

During the next few minutes, I would like to:

- a. briefly review the history of commodity futures regulation in this country;
- b. describe the role of CFTC in current regulatory efforts and discuss some of the contemporary issues facing CFTC; and
- c. discuss farmer participation in futures trading.

The Development of Futures Regulation

Futures trading in this country began in the 1860's in grain. Almost immediately, farmers suspected the futures markets of working against their best interests. From the late 1860's on, there were numerous efforts to abolish futures trading. Gradually, over the years, the move to abolish futures trading gave way to a move to regulate the futures markets. Finally, in the 1920's federal regulation was enacted imposing minimal regulations on the grain futures markets. Since this was done at the insistence and for the protection of the farmer, the regulatory authority appropriately was given to the Secretary of Agriculture.

However, the regulatory authority of the 1922 Act was weak, and it was limited to trading in grain futures. Over the years there developed renewed pressure to improve and extend regulation of the futures markets. This pressure eventually resulted in the Commodity Exchange Act of 1936 which extended government regulation to a number of other agricultural commodities. For the first time, provisions were included to protect the interests not only of farmers but of all the users as well.

Between 1936 and 1968, several minor amendments were made to the Act, bringing additional commodities under regulation. In 1968 significant changes were made such as requiring futures commission merchants to meet minimum financial standards and requiring exchanges to enforce their trading rules and contract terms. Still more agricultural commodities were brought under the Act also.

In 1974 Congress enacted the new Commodity Futures Trading Commission Act which completely overhauled the Commodity Exchange Act. The fundamental reason for the passage of the new Act was concern

over prices. There had recently been a major shift in many commodities from an artificial price-supported market toward a free market with prices influenced by supply and demand. At the same time a very tight situation developed worldwide in many commodities putting upward pressure on prices. This brought hedgers and speculators into the futures markets in strong numbers. It resulted in an explosion in the volume of futures trading. The chaotic prices of agricultural commodities and other materials during 1972 and 1973 focused public attention on the marketplace and led to charges that inadequate regulation of the futures markets attributed materially to rapidly advancing prices. In the new Act, Congress greatly increased the regulatory authorities and almost doubled the coverage by including all the commodities traded on futures markets not previously regulated.

The 1974 Act set up the Commodity Futures Trading Commission as a separate regulatory agency, completely independent of the Department of Agriculture. Most importantly, the Act makes clear that the primary purpose of government regulation of the futures market is not merely to protect the American Farmers and market users but to protect all the people. Economic purpose and public interest tests were introduced as were numerous provisions to protect small traders. Trading on futures markets was recognized as a major institution which furthers the public welfare.

The Commodity Futures Trading Commission

The Commission has three basic responsibilities:

1. To protect the economy from artificial and unwarranted futures price distortions.
2. To protect all users of the futures markets, not just farmers, from abusive practices.
3. To protect traders in the markets from the misuse of their funds.

The Commission carries out its responsibilities through six basic programs. They are:

1. Regulation of contract markets to assure the transactions are competitive and fair to all concerned;

2. Market Surveillance and analysis to protect customers against abuse, prevent manipulation, etc.
3. Enforcement of Commission rules and the provisions of the law;
4. Registration of all those involved in executing transactions and dealing with the public to weed out the unethical and underfinanced;
5. Protection of customers funds; and
6. Public information to provide better understanding of the futures markets.

All commodity futures exchanges have to be approved by the Commission, and their rules and regulations must meet the Commission's requirements. As of now, the Commission has authorized trading on 90 contract markets on 10 different exchanges located in New York, Chicago, Kansas City, and Minneapolis. In most cases the contracts on each of the exchanges are for different commodities. However, in a few cases a commodity is traded on two or more exchanges.

We have been engaged in an extensive rule review process since the new Act became effective in April 1975. We have reviewed many rules; and, following discussions with the various exchanges, they have modified a large number of these rules to meet our requirements. This rule approval process goes on continually.

As part of the market surveillance program, large traders in all commodities are required to file reports with us, reflecting their cash and futures transactions and positions. This is one means of identifying the persons involved in market congestions or price distortions and is an indication of what they are doing. The Commission is now in the process of simplifying the reporting system.

The enforcement program seeks not only to punish the offenders but also to stop ongoing offenses and discourage future offenses. One important law enforcement tool the Commission has is the power to seek injunctions. We have already used the injunction tool a number of times to stop violations. We have suspended a number of people from

trading. The Commission currently has about _____ cases under consideration, and several hundred others are in various stages of investigation.

Registration is the handle the Commission has on the professionals. In its short life, the Commission has already registered about 44,784 persons and firms engaged in the commodity futures business. As of June 30, there were 314 futures commission merchants registered, 2467 floor brokers, 30,330 associated persons, 861 commodity trading advisors, and 491 commodity pool operators. What may be more important is that we have refused to register quite a number and have withdrawn some registrations. We are trying to weed out the crooks. Up until now the Commission has concentrated on the fitness of applicants. In the future it will consider imposing other qualifications as well.

To safeguard customer funds, the Commission sets minimum financial requirements for futures commission merchants. It also requires customer funds to be segregated which prevents a futures commission merchant from using customers' funds for his own purposes. Up until now the Commission has used the same standards established by the CEA but is now considering increasing these. The industry has an outstanding record of customer protection due in part to this segregation requirement. We audit firms to make sure they follow these financial protection rules.

The last major program--that of public information --is designed to protect the users of futures markets by making them more informed. The better each individual trader is informed, the better the markets will function. The better the public is informed, the better the acceptance of the system should be.

I have summarized only the major Commission programs; there are many more.

Contemporary Issues Facing CFTC

Although the list of contemporary issues facing the CFTC is long, I am only going to touch on two issues -- the regulation of forward contracts and foreign trading on U.S. markets.

To turn to the first of these, some efforts are being made to have CFTC regulate forward contracts in the interest of grower protection in the event of default by the buyer.

There is, of course, a question of whether CFTC currently has authority to regulate such contracts. Last year we undertook a study of forward contracting in several major agricultural commodities -- cotton, corn and soybeans -- at the request of a member of the Senate Agriculture Committee and found that the overall incidence of default was quite small in 1976. Presently, again at the direction of the Congress, we have undertaken a study to determine how to regulate all forward contracting in all commodities. We will report on that at the end of this year. Personally, I question how much protection against default on contracts growers actually need beyond what they can now obtain. Nationwide losses have been very small. If growers are concerned about the security of the buyer, they can always ask for some type of surety or performance guarantee. I am concerned about the massive amount of regulation now in our society; and, when a regulatory agency attempts to do more than it can physically do, you get the worst type of regulation. The CFTC simply cannot, now or in the foreseeable future, effectively police all the cash markets or even the forward contracts. They are too numerous. Direct supervision or regulation of all the individual cash markets by CFTC is simply not practicable. There must be an easier answer.

Foreign Participation in U.S. Markets

It is frequently alleged that the foreigners are taking over our markets and that somehow the CFTC should limit their participation in the markets. The extent of current foreign participation in U.S. futures markets can be deduced from data on foreign traders' activities for the nine monthend dates from June 1976 through February 1977. Although this information covers only the large foreign traders, it is believed to be a good indication of overall foreign participation in U.S. markets.

The data in Table 1 represents traders from 63 different countries and indicate that the total number of reporting foreign traders has been small, less than 1 percent of all traders. Further, most of them were located in Canada, Western Europe and Australia. As one would expect, foreign traders were concentrated in the grains and soybean complex, foreign foodstuffs, industrial commodities and precious metals.

The data in Table 2 show that, except for foreign foodstuffs (coffee, cocoa and sugar), the average percentage of open interest accounted for by large foreign traders was quite small, ranging on the long side from 1.5 percent for precious metals to 11.5 percent for industrial goods, and on the short side from 1.9 percent for livestock and meat to 5.9 percent for financial instruments. Very little of the foreign participation came from the lesser developed countries (LDC's), with the exception of one commodity (coffee), in which an average of 16.1 percent of the long open interest emanated from Central and South American accounts.

Although these data suggest that foreign participation in the U.S. markets was, on average, quite small relative to total U.S. participation and that the LDC portion of that trader was very small, there was a good deal of variation in the amount of foreign participation. For example, on one monthend date nearly 31 percent of the short positions in a single precious metal was held by accounts from Southeast Asia. Also, on one monthend date, 25.2 percent of the long positions in a single foreign foodstuff (coffee) was held by traders from Central and South American.

The data in Table 3 indicate that only a very small percentage of the total trading in the grain was accounted for by foreigners. The highest percent held on one monthend in any of the commodities was 6.8 percent of the short side in soybean meal. On average the foreign participation ranged from a low of .8 percent of the long position in oats to 9.2 percent on the short side in soybean meal.

In summary, the above data do not support a contention that foreigners have lacked access to the U.S. markets. On the other hand, neither do these data support an assertion sometimes made that U.S. commodity markets are regularly dominated by foreign interests. This latter notion has led to repeated calls for a regulatory policy to "protect the markets" -- a public policy issue which involves the tradeoff between open access to the markets and potential market abuse by foreign interests which may be beyond the influence of U.S. law.

Good arguments can be made in favor of maintaining, as much as possible, open access to U.S. markets. Competition requires freedom of entry and exit with markets reflecting all factors affecting price. Even if foreigners are not granted access to U.S. markets, these institutions will not, in most instances, be immune from collusive or manipulative actions taken in an alternative foreign market. Lastly, it can be argued that it is best to "have them where we can watch them."

Counterbalancing this open-access argument is a concern that foreign nations are privy to information about supply and demand conditions for some commodities which, irrespective of its informational value to the marketplace, provides them an unfair advantage. Secondly, where the commodity being traded is produced in only a few countries, it may be relatively easy for several foreign nations to agree on collusive policies which can have a pronounced influence on the futures markets. Finally, there are limited regulatory sanctions which can be effectively imposed against a foreign trader guilty of collusive or manipulative actions on the U.S. markets.

Despite the strength of these latter arguments, and because of the relatively small amount of direct foreign participation in U.S. markets, the most appropriate current public policy approach to this issue appears to be maintaining open access to U.S. futures markets while improving the public information on foreign traders' activities in these markets.

Farmer Use of Futures

Earlier I noted that there had been considerable increases in the total amount of futures trading in recent years. Despite these increases farmers do not use futures markets to a very large extent. According to a CFTC survey conducted in 1976 through the Statistical Reporting Service of USDA, only 5.6 percent of all U.S. farmers with annual gross commodity sales over \$10,000 traded futures in 1976. This is a small percentage and includes farmers who were

hedging as well as speculating. On a regional basis, only 1.8 percent of the farmers in the North Central Region (Colorado, Montana, North Dakota, South Dakota, Utah and Wyoming) traded futures in 1976. Nationally, we found that larger farmers tended to trade more (13.1 percent of those over \$100,000 annual gross sales) than small farmers. We estimate that approximately 1 percent of the U.S. grain farms with gross sales over \$10,000 hedged in the futures markets in 1976.

One of the most interesting results of our survey showed that most farmers who do trade futures speculate instead of hedge. We asked those who indicated that they traded futures in 1976 whether they traded a commodity they produce or use in their farming operation; 66 percent said "No". They obviously had to be speculators.

In short, few farmers are directly involved in the pricing process carried on the futures markets and those who are usually speculate.

Even though most individual farmers do not directly trade futures, they may indirectly participate in the futures pricing process through farmer-owned cooperatives who hedge, through forward contracts signed with local grain handlers who in turn hedge, and through use of the futures price as a guide in their production and marketing decisions. A USDA grain industry survey indicated that cooperative elevators hedge more frequently than single owner or partnership elevators and less frequently than corporate owned entities. To the extent that farmer-owned cooperatives hedge their purchase commitments, farmers are indirectly benefiting from reduced price risk. That is, farmers are participating in the futures market pricing process in an organized, rational manner, relying on the specialized expertise which is available to a large cooperative but not usually available to an individual farmer.

Forward Contracts

Because of the existence of futures markets, first handlers (local buyers) are encouraged to offer a wider range of marketing alternatives to the farmer. In particular, the first handler can

buy farmers' grain on forward contracts specifically designed to meet farmers' needs and, when these forward purchases have not been offset by forward contract sales, the first handler can receive protection against price risk by selling (short hedging) futures. Without the futures market, the first handler would be much more limited in terms of potential offers to farmers. In essence the first handler acts as a hedging intermediary for the farmer, providing the farmer with the benefits offered by forward pricing while insulating him from basis risk.

To what extent do farmers in general and grain farmers in particular use forward contracts? Farmers were asked if they had signed forward contracts for grain crops during 1976. Nationally, forward contracts were signed by 10.3 percent of all farms with gross sales over \$10,000 during 1976. Forward contracting of grain was more prevalent in the Midwest and South Central and among larger farms. Grain contracts were signed by 6.9 percent of the farmers in the North Central Region. Nationally, more grain farmers signed forward contracts for grain crops (17.2 percent) than did livestock and other farms.

The extent of forward contracting varies from year to year. Additional data on forward contracting for grain crops were available from the USDA survey which showed that, in 1974, 63 percent of the corn, 51 percent of the wheat and 60 percent of the soybeans purchased from farmers by grain marketing entities were done so using some type of forward contract.

Those farmers who signed forward contract in 1976 were asked if the price of the contract was in any way based on futures prices. Nationally, 48.3 percent said "yes" which indicates the degree of connection between futures prices and forward contract prices. However, 20.1 percent answered "do not know" and this presents a disquieting picture of farmers who have used cash forward contracts but may not know for certain how the price of the contract is determined. In the North Central Region 27.9 percent answered "yes" and 25.8 percent answered "do not know."

Farmers were also asked if they experienced any problems with defaults on forward contracts. The term "any problems" could have been interpreted to mean actual or threatened default by first handlers or problems arising which might result in default by farmers. Nationally, only 0.4 percent experienced any default problems. There were so few respondents answering "yes" to this question that comparisons of results for the various regions, sales categories and type of farms is all but meaningless.

Forward contracting is a widely used marketing alternative open to farmers. It offers the farmer the possibility of fixing the price for his crop and makes possible the type of business planning which is predicated upon fixed or stable prices. The existence of this alternative is inextricably linked with the use of futures markets in grain marketing.

Extent of Farmers' Use of Futures for Price Information

While few farmers actively trade futures contracts, many more keep track of futures prices. The farmers' active awareness of futures prices is part of the information effect operating between the futures markets and local market areas. Futures prices give the farmer a "ball park estimate" of what his grain is worth and he can use these prices as a guide while considering when and to whom to sell his grain. Farmers who indicated they did not trade futures were asked if they kept track of futures prices at any time during 1976. Nationally, 30.4 percent of all farmers with annual gross sales over \$10,000 kept track of futures prices at some time during 1976. Regionally, 16.4 percent of farmers in the North Central Region said they kept track of futures prices. Also the bigger the farm, the more attention paid to futures prices. Compared to the U.S. total, fewer livestock and other farmers kept track of futures prices while more grain farmers kept track.

One other question on the CFTC survey of farmers sheds light on Farmers' knowledge of futures markets as it relates to grain pricing. All respondents were asked if they understood the term "local basis." Nationally, 37.6 percent indicated that they understood.

the term and such understanding was expectedly highest in the Midwest and lowest in the East and South - South Central Regions. The North Central Region was close to the national average with 35.3 percent indicating they understood the term. Knowledge of basis pricing was higher for higher sales categories. The term "basis" is probably more widely used in the grain industry than in most other agricultural commodities and knowledge of the term was expectedly higher among grain farmers than livestock and other farmers.

In summary, while it is clear that in general farmers do not actively trade futures contracts, it is also apparent that many farmers in general and grain farmers in particular do follow futures prices and are aware of the existence of a relationship between their local cash price and the futures prices. But the link between futures markets and farmers is even stronger than the level of awareness and understanding might imply because the existence of futures markets facilitates other marketing alternatives available to farmers.

Reasons Farmers Do Not Trade Futures

Despite the above indirect uses of the futures market by farmers, 94.4 percent of all U.S. farmers did not trade futures in 1976. The question still remains: Why? The most frequently selected reason for not trading futures was "not acquainted with how futures market operates" (28 percent nationally, 33.2 percent for North Central Region). This response might be interpreted as an indication that a broad educational effort is needed to inform farmers about the mechanics of futures trading. However, it is not possible to conclude that, if those farmers who are not trading because of lack of understanding were informed about futures trading, they would then immediately start trading. There are other factors which prevent farmers from trading.

"Size of farming operation too small to warrant using futures contracts" (20.1 percent nationally, 17 percent for North Central Region) and "futures markets too risky" (13.3 percent nationally and 13.9 percent for North Central Region) were the next two most frequently

chosen reasons for not trading. Small farming operations in relation to the size of futures contracts--which are not designed to encourage widespread farmer participation--is a reason quite consistent with other findings from the CFTC survey of farmers which indicated more futures trading among larger farms. Those who do not trade because they feel futures markets are too risky may not have an adequate understanding of the principles of hedging or they may be viewing the futures market only as a speculative vehicle.

The five most frequently selected reasons (not acquainted, farm too small, too risky, lack of capital, and no time) encompassed 80.4 percent of the responses and provided a picture of relatively small farmers with limited knowledge of futures, limited capital and limited time who feel the markets are too risky to warrant their participation.

The infrequency with which the "don't approve of the futures market" reason was selected (6.2 percent nationally, 10 percent for North Central Region) indicates there is not a widespread fundamental disapproval of futures markets among farmers.

In answer to the question, why don't farmers trade futures, one might also ask: Why should they? Most farmers do not trade because of logical reasons related to lack of necessary expertise, size of farms, risk and constraints on their capital and time. A farmer has the choice of selling his crop on the futures market or selling it either cash or forward to one of his local grain buyers. If the local grain buyer is offering to pay a price (either cash or forward) which is in line with the futures price, what incentive is there for the farmer to sell on the futures? By forward contracting instead of trading the futures directly, he saves on commission charges and does not tie up capital to meet potential margin calls. Further, he gets a contract specifically tailored to his needs with regard to quantity, quality, location and timing at a competitively determined price. The fact that, approximately 37 percent of the U.S. grain farmers who do not trade futures, do keep track of futures prices

indicates that many farmers may be directly comparing buyers' offers with futures prices and concluding that there is no reason to sell on the futures market.

In summary, the purpose of the commodity futures markets is to make the cash markets work better. The role of the CFTC is to see that the futures do that and to protect the people who trade futures from fraud and misuse of funds. Two of the big issues facing the CFTC are authority to regulate cash markets and forward contract and the role of foreign traders in trading on U.S. futures markets. In the first instance, the CFTC cannot do it, and it is questionable whether it is needed anyway. In the second instance, the foreign interests do not seem to be dominating the markets. Besides simply reducing access to the market may not achieve all the objectives intended.

Finally, although most farmers do not use the futures market directly, many of them participate indirectly through capital to meet potential margin calls. Further, he gets a contract specifically tailored to his needs with regard to quantity, quality, location and timing at a competitively determined price. The fact that, approximately 37 percent of the U.S. grain farmers who do not trade futures, do keep track of futures prices indicates that many farmers may be directly comparing buyers' offers with futures prices and concluding that there is no reason to sell on the futures market.

Finally, although most farmers do not use the futures market directly, many of them participate indirectly through forward contracts and by following the futures as a guide in their decisionmaking.

TABLE 1

Average Number of Traders Per Monthend Date (6/30/76 - 2/28/77)

Country Group	Grains & the Soybean Complex	Livestock and Meat	Foodstuff 3/ Domestic	Foodstuff 4/ Foreign	Foodstuff 5/ Instrument	Industrial 6/ Goods	Precious Metals 8/
A	131	29	15	67	12	84	68
A-1	108	29	15	65	11	80	67
A-2	23	-	*	2	*	4	1
B	3	-	-	3	1	1	3
C	21	*	1	13	2	9	5
D	4	1	1	5	1	4	5
E	6	4	*	2	-	13	21
E-1	1	-	-	-	-	2	-
E-2	5	4	*	2	-	11	21
F	4	-	-	1	-	1	*
Average all countries	164	35	18	91	16	128	102

1/ A - Canada and Australia, West European countries.
 A-1 - Australia, Canada, Belgium, Denmark, Great Britain, France, West Germany, Holland, Italy, Leichtenstein, Netherlands, Switzerland, Sweden.
 A-2 - Austria, Ireland, Finland, Greece, Malta, Norway, Portugal, Spain.
 B - Bermuda, Bahamas, Cayman Islands, Jamaica, British Islands, West Indies.
 C - Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Panama, Uruguay, Venezuela, and Botswana, Africa.
 D - Mid-East--Iran, Israel, Kuwait, Lebanon, Saudi Arabia, Sudan, UAR, Trucial States.
 E - Far East and Pacific.
 E-1 - Japan.
 E-2 - Communist China, South Korea, Indonesia, British Solomon Islands, Malaysia, Philippines, Singapore, Taiwan, Hong Kong.
 F - South Africa.

2/ Includes wheat, corn, oats, soybeans, soybean meal and soybean oil.
 3/ Includes live cattle, feeder cattle, live hogs, pork bellies and iced broilers.
 4/ Includes potatoes, eggs, and orange juice.
 5/ Includes: coffee, cocoa, and sugar.
 6/ Includes GNMA's, T-bills, and foreign currencies. (All currencies are combined and handled as a single commodity.)
 7/ Includes rubber, cotton, lumber, plywood, copper, palladium, and petroleum.
 8/ Includes gold, silver, platinum, and silver coins.
 NOTE: Totals may not add due to rounding.
 - No reportable traders.
 SOURCE: CFTC series '01 reports.

TABLE 2

Percent of the Open Interest for Selected Commodity Groups Held by Reportable Foreign Traders on 9 Monthend Dates (6/30/76-2/28/77)

Country Group	Grains and Soybean Complex		Livestock and Meat		Domestic Foods		Foreign Foods		Financial Instruments		Industrial Goods		Precious Metals	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
A														
Avg.	2.8	2.8	3.3	1.9	6.2	3.9	21.2	24.6	2.9	2.7	9.8	5.6	1.5	1.1
A-1	2.6	2.4	3.3	1.9	6.2	3.9	20.6	24.6	2.9	2.7	9.8	5.6	1.5	1.1
Range	4.4	6.1	8.1	7.1	11.6	12.4	28.9	43.7	6.0	5.9	17.2	21.7	16.9	11.8
U	1.9	2.0	-	-	3.4	-	22.9	13.1	2.1	.8	-	-	-	-
L	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A-2														
Avg.	0.2	0.4	-	-	-	-	0.6	*	-	-	*	*	*	-
Range	1.6	3.2	-	-	.9	-	1.9	.8	.5	-	2.2	.3	.1	-
U	0.1	-	-	-	-	-	1.1	1.1	-	-	-	-	-	-
L	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B														
Avg.	0.1	*	-	-	-	-	1.1	1.4	*	2.2	*	*	*	*
Range	.3	.3	-	-	-	-	3.7	2.3	2.2	6.6	.3	1.3	.8	.2
U	-	-	-	-	-	-	-	-	-	-	-	-	-	-
L	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C														
Avg.	0.4	0.7	*	*	*	-	1.9	*	1.4	-	0.8	*	*	*
Range	1.7	6.8	.2	.3	1.7	-	25.2	1.5	4.6	-	2.1	.3	3.6	.4
U	-	-	-	-	.4	-	.7	1.2	-	-	-	-	-	-
L	-	-	-	-	-	-	-	-	-	-	-	-	-	-
D														
Avg.	0.2	*	*	-	*	*	*	*	0.9	1.0	*	*	*	*
Range	2.5	.1	.3	-	1.1	2.6	4.2	2.0	8.1	10.6	1.2	.4	6.6	4.2
U	-	-	-	-	-	-	.4	.2	-	-	-	-	-	-
L	-	-	-	-	-	-	-	-	-	-	-	-	-	-
E														
Avg.	0.1	*	0.9	-	*	-	*	*	-	-	0.9	*	*	1.1
Range	-	-	-	-	-	-	-	-	-	-	*	*	-	-
U	-	-	-	-	-	-	-	-	-	-	.9	2.1	-	-
L	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Z-2														
Avg.	0.1	*	0.9	-	*	-	*	*	-	-	0.9	*	*	1.1
Range	.9	.1	8.2	-	.7	-	.4	.1	-	-	1.8	1.1	4.8	30.9
U	-	-	-	-	-	-	-	-	-	-	-	-	-	-
L	-	-	-	-	-	-	-	-	-	-	-	-	-	-
F														
Avg.	-	*	-	-	-	-	*	*	-	-	-	*	*	-
Range	-	.1	-	-	-	-	*	*	-	-	-	*	*	-
U	-	-	-	-	-	-	-	-	-	-	-	-	-	-
L	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average all countries	3.7	3.5	4.2	1.9	6.2	3.9	24.3	26.0	5.2	5.9	11.5	5.6	1.5	2.2

1/ See Table 1 for countries included in each group.

2/ The maximum percent of the open interest held by reporting foreign traders on any month-end date was computed for each commodity within a commodity group. The range shown in the tables represents the range of these maximum percents within a commodity group. U indicates the upper end of the range, L indicates the lower end of the range.

* Less than 0.05 percent.

- No reportable traders.

SOURCE: CFTC series '01 reports.

TABLE 3

Grains and the Soybean Complex

Percent of Open Interest Held by Reportable Foreign Traders on 9 Month-end Dates (6/30/76-2/28/76)

Country/ Group	Wheat		Corn		Oats		Soybeans		Soybean Oil		Soybean Meal		Total	
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
A	Avg.	2.1	1.1	3.0	2.6	0.7	1.1	3.0	2.4	2.7	4.3	3.6	6.1	2.8
	Avg.	2.1	1.1	2.8	2.4	0.6	1.0	2.9	1.9	2.2	3.8	2.6	5.3	2.6
	Max. 2/	2.8	2.0	4.4	3.3	1.9	3.6	3.8	3.1	3.1	4.4	3.6	6.1	
B	Avg.	*	--	0.2	0.2	0.1	0.1	0.1	0.5	0.5	0.5	1.0	0.8	0.4
	Max.	0.1	--	0.3	0.6	0.9	0.9	0.3	0.8	0.9	1.0	1.6	3.2	
	Avg.	0.1	--	0.1	--	--	--	*	*	*	*	--	--	*
C	Avg.	0.1	--	0.2	--	--	--	0.1	0.2	0.3	0.3	--	--	0.1
	Max.	0.2	--	0.2	--	--	--	0.1	0.2	0.3	0.3	--	--	
	Avg.	0.1	*	0.5	0.2	--	--	0.5	1.1	0.3	0.1	0.6	3.1	0.4
D	Avg.	0.8	0.1	1.7	0.5	--	--	0.7	2.3	0.6	0.4	1.3	6.8	0.7
	Max.													
	Avg.	0.7	--	*	*	--	--	0.1	0.1	*	--	0.3	--	*
E	Avg.	2.5	--	0.2	*	--	--	0.2	0.1	0.1	--	0.5	--	
	Max.													
	Avg.	--	--	*	*	--	--	0.3	0.1	*	--	0.1	--	*
E-1	Avg.	--	--	--	--	--	--	--	--	--	--	--	--	*
	Max.	--	--	--	--	--	--	--	--	--	--	--	--	*
	Avg.	--	--	--	--	--	--	--	--	--	--	--	--	
E-2	Avg.	--	*	*	*	--	--	0.3	*	*	--	0.1	--	*
	Max.	--	0.1	*	*	--	--	0.7	0.1	0.2	--	0.9	--	
	Avg.	--	--	--	--	--	--	--	--	--	--	--	--	
F	Avg.	--	--	--	--	--	--	--	--	--	--	--	--	*
	Max.	--	--	--	--	--	--	--	--	--	--	--	--	
	Avg.	--	--	--	--	--	--	--	--	--	--	--	--	
Average all Countries		3.0	1.1	3.6	2.8	0.8	1.1	3.9	3.7	3.0	4.4	4.6	9.2	3.6

1/ See Table 1 for countries included in each group.

2/ Maximum percent of the open interest held on any one month-end date by reportable foreign traders.

* Less than 0.05 percent

-- No reportable traders.

SOURCE: CFTC series '01 reports.

RESPONSE TO ADDRESS BY

MARK POWERS

By

Dean Hellinger, Farmer
Shelby, Montana

I've come to many meetings where there weren't many producers, we were outnumbered by Extension Service people. But today we have lots of farmers. I also notice that we have a lot of women and I'd first like to know how many of the women here are members of the new WIFE organization. I kind of suspected that; thank you for coming, everybody.

I wasn't surprised to see so many people. Gene, of course, was nervous this morning and last night about whether or not the room would be full, or too full, or if anybody would show up at all. But coming from a small town I knew that there would be a lot of people here. I knew because, last November my wife and I were gone for a couple of weeks and when we returned home, we got to town just as there was a huge funeral procession pulling in from the cemetery. We hadn't been in touch with local news and we didn't know what was happening. So we parked down town and were quite anxious to find out who had passed away. We went over to a neighbor and asked and then we were surprised to learn who it was. Because it was one of the most unpopular people in town. This person, for the last thirty-five years, had been against everything. But this is the biggest funeral I had ever seen. And this guy says, "well you give people what they want and they will turn out."

We have a reaction panel here today. That doesn't make us reactionaries but we will react to some of the questions brought up about the futures market. I'll omit making introductions so that we will have more time for questions at the end. Presentations will be made by the persons on the platform with me, Mr. Frank Daniels, Mr. Kent Norby and Dr. Gail Cramer. Their addresses and other information is given in your program. Mr. Daniels will make the first presentation.

RESPONSE TO ADDRESS BY

MARK POWERS

BY

Frank Daniels, Farmer
Sidney, Montana

I'm going to keep my remarks rather short. I certainly had no argument with the things that Mark Powers was saying this afternoon. I feel that what they are doing is something that is needed to be done. But more than that is, I've done some trading in the futures market without very much success and I've done some forward contracting and wished that I hadn't.

I have come to the conclusion that what the Montana farmer needs is more accurate information on just exactly what is happening in the market. I think that it's about time, and I've said this before, that the Montana State University and the Extension Service give us some grain marketing specialists for Montana. We have quite a number of people in the Extension Service that work on things that don't necessarily relate to agriculture. I would like to see more information on marketing. They've done an excellent job of teaching us how to raise two blades of grass where there used to be one, but we've never learned how to market it. It doesn't put any money in my pocket if I don't know how to market it.

I am a part-owner in the Western Cereal Company. We make Cream of the West and yesterday my partner and I were having lunch together. I asked him what happened to our cereal when the price of wheat went up. We have a competitor which is Cream of Wheat, which most of you are familiar with. They sort of set the price and we follow along. And we don't market a lot of cereal. But, we took three price increases while the price of wheat was going up. One was 6¢ and then we took 4¢ and then we took 3¢, and then the price of wheat started to come down. You know what happened to us? We didn't come down any. We kept our price exactly where we had it. So I asked him

what happens to the extra money that we are now getting because we aren't paying so much for wheat. "Well", he said, "the price of gas and paper products has gone up. Labor has gone up. Transportation charges have gone up." He said, "I guess it really boils down to the fact that the farmer is subsidizing the economy". That's it.

RESPONSE TO ADDRESS BY

MARK POWERS

By

Dr. Gail Cramer, Agricultural Economist
Montana State University
Bozeman, Montana

I did not find much with which to argue in Dr. Powers' paper. He has done an excellent job of presenting a great deal of information on the participants in the futures markets.

It is encouraging to note that many of the people involved in the buying and selling of futures contracts are using these contracts to forward price commodities or to allocate inventories over time. Thus, the futures market appears to be fulfilling its economic role. This role will be assured only if the Commodity Futures Trading Commission (CFTC) maintains competitive futures markets. This responsibility alone will require much of its effort.

However, do competitive futures markets necessarily insure competitive cash markets? I believe that we do not have adequate research information at the present time to answer this question. I think the CFTC or some other government agency should undertake such a project in a few of the cash grain markets throughout the United States. A market structure study of the grain industry would have to rely on data from the grain firms in a market area and therefore an agency of the government would have to conduct the study.

In analyzing particular cash markets, it is important not only to analyze the seller side of the market but also the buying side. I would suspect one of the reasons for the establishment of many foreign state grain trading organizations is to attempt to dilute that type of market power.

Foreign participation in U.S. futures markets is a reflection of their role in establishing at least a "base price" in the world grain market. Controlled foreign access is needed, but if the futures market is really determining a "world base price", more international trading should be encouraged. Food-deficit countries should be able to hedge

some of their food needs.

I think our futures markets could handle these contracts if they could limit the number of contracts traded and lengthen the life of those contracts. This change in policy would allow the market to reflect the total demand for grain and reduce the amount of grain reserves held by the United States. In conjunction with this policy change, increased reporting of information must be required regarding foreign trader's activities in these markets. I feel we should require all trader's domestic as well as foreign to report their trades.

In order to maintain as much competition in the grain industry as possible, the U.S.D.A. should continue its effort to foster the cooperative grain business. Special emphasis should be given to cooperatives in the grain export business.

Montana producers historically could have used the December and March Kansas City futures contract to hedge winter wheat. However even now when the government will make most of the production and marketing decisions, a knowledge of the futures market can be used as an alternative marketing tool. Also there are times when a storage return can be made even when futures prices are below the loan rate.

RESPONSE TO ADDRESS BY

MARK POWERS

BY

Kent Norby, Area Manager for Montana
Cargill, Inc.
Great Falls, Montana

Per Al Donahoo and others - prices are determined by Supply/
Demand and not just S/D in Montana - Pacific Northwest - and/or
United States, but the world S/D. Montana prices are in part
determined by domestic demand but more importantly by foreign
demand.

How valuable are grain exports to the United States? Do
overseas markets really deserve to be protected?

Today, grain exports account for about one-third of harvested
acreage in the U.S.. About two-thirds of U.S. wheat, one-half its
soybeans and nearly one-quarter of its feed grain output moves into
export. Grain farmers depend heavily upon exports for income, and
U.S. agricultural resources would be underemployed without them.

Grain exports also build jobs and income in the grain and
transportation industries. With overseas customers now taking
more than 3 billion bushels of U.S. grains annually, exports require
the services of many elevators, truckers, railroads, barge lines and
Great Lakes and ocean shipping.

U.S. farm product exports have also become a major earner of
foreign exchange, exceeding \$20 billion in each of the last three
years. Grain and oilseed shipments have accounted for between two-
thirds and three-quarters of this total, and agriculture now has
a balance of trade surplus of more than \$10 billion. Without
these earnings the U.S. would have a weaker dollar and experience
more difficulty in paying for the energy, mineral and other product
imports it needs. In fact, agricultures's strong performance--buoying

the dollar's value in international markets--has helped soften the impact of inflation by enabling consumers to purchase more imports for less money. Finally, agricultural exports benefit the economy as a whole. Farming is still the nation's largest industry, and many people in the chemical, petroleum and automotive industries owe their jobs directly to farming. The rural economies of many states similarly depend upon a vibrant agriculture. Exports are important in building this well-being and ensuring that farm resources are fully and productively employed.

Overseas grain markets, moreover, are not certain and immutable. The U.S. needs those markets as much as they need U.S. grain. After all, grain is grown in most areas of the world. Exports account for about one-tenth of world grain use, and the U.S. accounts for about half those shipments. As the 1973 U.S. soybean embargo indicated, interruption of U.S. supplies can prompt expansion of competitive output. Since then, Brazilian soybean production has more than doubled to 11 million metric tons. Competition for wheat and feed grain exports also should intensify in coming years as Argentina, Brazil and others develop their potential. The U.S. must be a reliable supplier in bad years as well as good.

Futures markets do affect the price of Montana wheat, however, not as much as they do for the Iowa corn farmer or the Kansas wheat farmer. Our Montana producers are aware of the futures markets and some follow them. However the Montana producer is still a flat price seller.

Our Montana wheat prices are primarily determined by the Pacific Northwest demand. Traditionally Pacific Northwest exports are 300 - 325 million bushels of wheat/barley.

Breaking It Down:

<u>Grain</u>	<u>Exports</u>	<u>Buyers</u>	<u>Origin</u>	<u>Competition</u>
Dark Northern Spring	50 million	Japan 40% Phillipines 30% SE Asia Indonesia	Montana/North Dakota	Canada
Dark Hard Winter	65 million	Japan	Montana	Gulf

<u>Grain</u>	<u>Exports</u>	<u>Buyers</u>	<u>Origin</u>	<u>Competition</u>
Dark Hard Winter	65 million	Korea Taiwan	Colorado/Kansas	
Winter Wheat	165 million	Japan Korea Iran Phillipines Taiwan	PNW	Austrailia
Barley	25 million	Korea	Washington/Idaho/ Montana	Austrailia/Canada
Cheap Wheat Buyers???		India Bangladesh Pakistan	United States	United States +All

Needless to say if a competing country/state cannot supply the world needs then our demand/prices are up. Weather, government programs, economy, livestock, human diets, etc. will affect grain prices.

As earlier stated, Montana's wheat is export oriented. To keep and/or increase our Montana share of the U.S. market we need to reverse the present trend of rail freight spreads-becoming more attractive to the Minneapolis/Duluth and the Gulf markets. We are being "priced out of the market!" Presently Japan is buying a good portion of its demand from Gulf ports.

COMMENTS, QUESTIONS AND ANSWERS

For

A MECHANISM FOR PROTECTING FARMERS

By

Dr. Mark Powers

QUESTION AND ANSWER SESSION

Question: Does the U.S. government have a policy to manipulate the commodity markets for the benefit of the U.S. consumers if the price for those commodities exceeded what the Administration thought would be politically acceptable to those consumers?

Powers: My answer is that I don't know.

Question: Did the Hunt family capture the soybean market last spring and what is being done to prevent that in the future?

Powers: First -- the Hunt family has never been charged with capturing the soybean market. They have been charged with a violation of a "limit on trading and positions" rule. The whole question, with respect to the Hunt family, is: do six people who talk together, live together, use the same accountant and sometimes the same brokers tend to follow the same trading pattern; do they indeed trade as one account or are they six separate accounts? When I left Washington yesterday, I was told that the Judge will probably rule today on the case. I haven't heard whether we've won or not. We've said that they indeed trade together and indeed are one account and therefore they traded too much. But they have never been accused of manipulating the market or capturing it. I don't know whether the judge has ruled.

Question: Please comment on the Wall Street Journal story on tax dodge tactics.

Powers: There have been a lot of stories in the newspapers about the use of the futures market to defer taxes. That's not a violation of the CFTC Act, unless it is done in a non-competitive fashion or fraudulently. It can be a violation of the IRS Act. The problem, with respect to those transactions, is that they may have been done in a non-competitive fashion. They have been done sometimes, from what we have been able to find out, by the people off in the corner making a transaction, turning it in to

the clearinghouse without ever executing it openly and competitively. That's a violation of the Act and it's obviously also a violation of the tax laws.

Question: Can the CFTC keep track of the few big grain companies that deal in large volume?

Powers: Yes, we can and we do.

Powers: Somebody just now came up and said the judge did rule and ruled, in favor of the CFTC, that the Hunts had, indeed, violated the law, but said that there wouldn't be any punishment involved and just said don't do it again. That will obviously be appealed. Both sides have said that they would appeal if they lost so I'm sure there will be an appeal.

Powers: There was a question on publishing data. We do publish quite a lot now. Not nearly as much as we should. We're getting ready to publish a lot more. The break down of types of positions will soon be changed and no longer given on the basis of hedge vs. speculator. This will probably come into effect in about six months. It will be giving more data on the basis of the type of the firm that is involved on the hedge side; and on the speculator side will obviously be the speculator. But, we're getting ready to report producer participation, merchandiser and processor participation, financial institution participation, and others, I might make a point that the financial institutions are becoming more and more involved in futures markets. The biggest futures markets and most rapidly growing are no longer agricultural. They are in the financial instruments, foreign currency, precious metals areas.

Question: The question was, "Could you explain the function of Tradex, a subsidiary of Cargill and it's effects on world market?"

Norby: Cargill is a large company. Total employees are approximately 23,000 people of which approximately one third of those people are employed by a subsidiary company called Tradex.

Tradex was started, as I recall, about 1954 in Montreal. Unable to cope with the large world expanding markets, it was moved to Geneva, Switzerland in 1956 for communications, transportation, and marketing reasons. Tradex operates as a separate company. It conducts our marketing in foreign countries for grain, feed, manufacturing, processing seed, etc.. It conducts it's own credit sales, etc.. Most of the employees of Tradex, except for top management, are natives of the country they are operating in, whether it is Thailand, Brazil, Germany, etc..

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Mrs. George Sexton
Jim Sheffels
John Sheffels
Dolores Shettel
Jim Shettel
Margaret Short
Sam Shrauger
Herbert Silberman
Bob Sisk Jr.
Geneva Sisk
Geo. A. Skarda
Arlo Skari
Darlene Skari
Charles Skompa
V. L. Snyder
Jesse E. Sparks
Janet Sperry
Dorothy Spika
Joe A. Spika
Ray Stack
Rep. John B. Staigmiller
Ken Staigmiller
Zack Stevens
Mike Stoltz
Richard Stotts
Gretchen Stotts
Douglas Stuart
Deanna Styren
Herb Styren
Sylvan Susag
Miles L. Swan
Gordon Swartz
Mrs. Gordon Swartz
Thomas Taylor
Alyce Taylor
Gene Thayer
Lois S. Tonne
Lowell Twedt
Mary Anne Ullom
Richard Ullom
Ted Urban
Chuck Urquhart
Mrs. Julie Valentine
Shirley Verschoot
Tom Visocan
Mrs. Marjorie VonBergen

PEOPLE ATTENDING FORUM
(continued)

Gordon H. Waller
Helen Waller
Darrell Watkins
Cecid Wham

John E. Wicks
Robert Wigen
Marcia Williams
Roger Williams

George Wolfe
Beth Wolft
R. C. Woolcock
Bill Yager
Wayne A. Yarger
Ray Zelenka

